

# BUSINESS WEEK

December 23, 1961

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DEC 23 1961

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The shape of U.S. business in

'62

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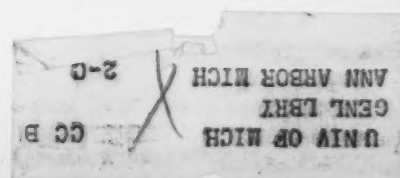
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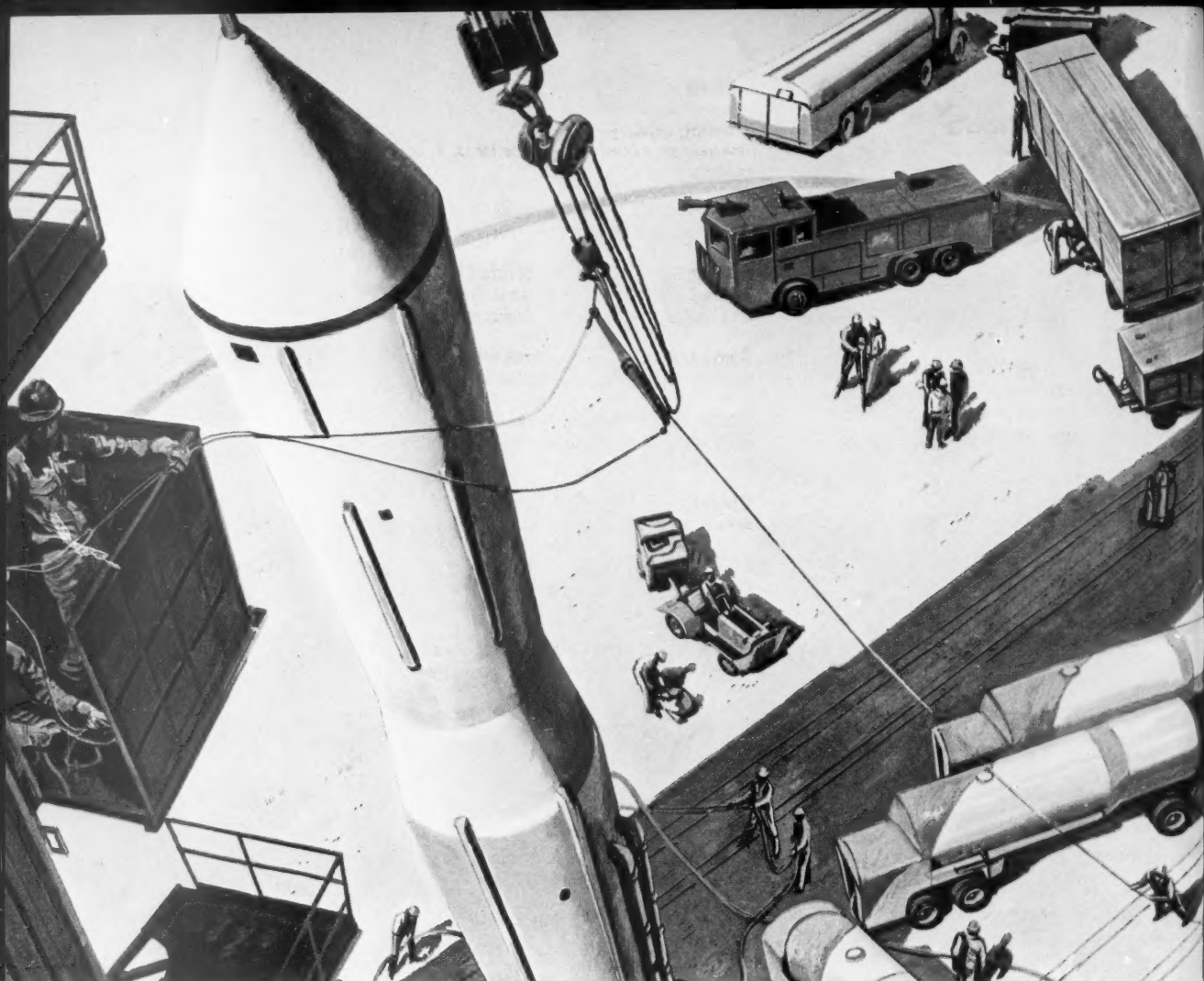
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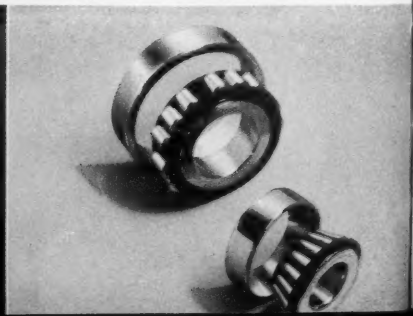
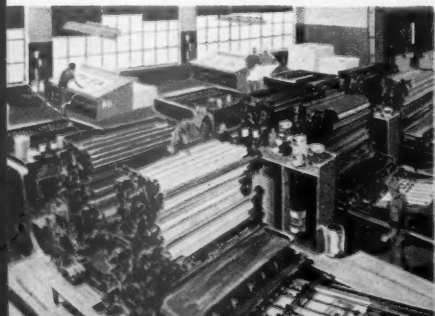
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**BW**

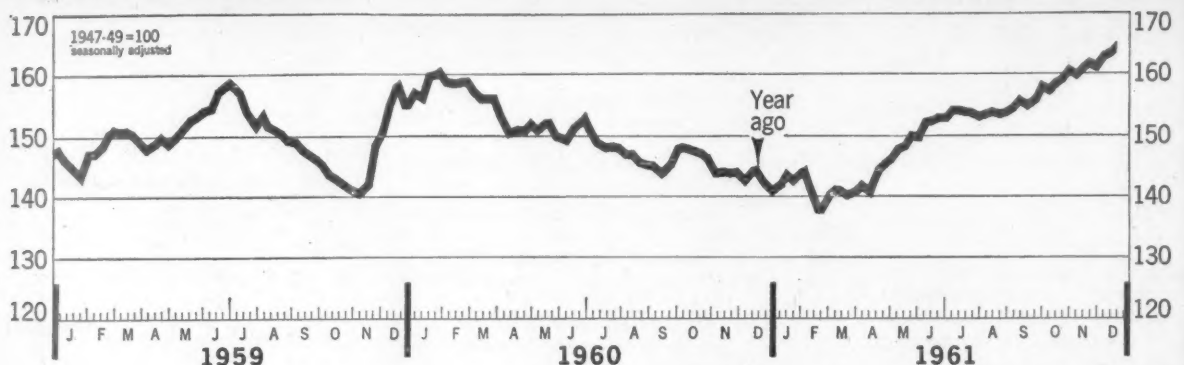
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## Figures of the week



### BUSINESS WEEK index chart

1953-55 average	Year ago	Month ago	Week ago	\$ Latest Week
133.3	144.9	162.3	163.9r	165.0*

### Production

Steel ingot [thous. of tons]	2,032	1,387	2,037	2,158r	2,200
Automobiles	125,553	130,711	154,230	161,454r	165,331
Engineering const. awards [Eng. News-Rec. 4-wk. daily av. in thous.]	\$52,412	\$68,517	\$70,473	\$63,693	\$67,148
Electric power [millions of kilowatt-hours]	10,819	15,440	15,678	16,084	16,695
Crude oil and condensate [daily av., thous. of bbl.]	6,536	7,132	7,206	7,397	7,355
Bituminous coal [daily av., thous. of tons]	1,455	1,289	1,500	1,478r	1,419
Paperboard [tons]	247,488	300,066	344,952	338,958	341,752

### Trade

Carloadings: miscellaneous and l.c.l. [daily av., thous. of cars]	70	52	57	56	55
Carloadings: all others [daily av., thous. of cars]	47	35	44	40	39
Department store sales index [1947-49=100, not seasonally adjusted]	121	296	169	238	298
Business failures [Dun & Bradstreet, number]	198	351	308	295	306

### Prices

Industrial raw materials, daily index [BLS, 1947-49=100]	89.2	85.8	88.0	90.0	90.3
Foodstuffs, daily index [BLS, 1947-49=100]	90.5	75.4	75.3	77.1	77.4
Print cloth [spot and nearby, yd.]	19.8¢	17.6¢	17.8¢	17.8¢	17.8¢
Finished steel, index [BLS, 1947-49=100]	143.9	186.2	185.4	185.4	185.4
Scrap steel composite [Iron Age, ton]	\$36.10	\$28.50	\$32.83	\$34.50	\$34.50
Copper [electrolytic, delivered price, E&MJ, lb.]	32.394¢	30.00¢	31.00¢	31.00¢	31.00¢
Aluminum, primary pig [U. S. del., E&MJ, lb.]	20.6¢	26.0¢	24.0¢	24.0¢	24.0¢
Wheat [No. 2, hard and dark hard winter, Kansas City bu.]	\$2.34	\$2.03	\$2.12	\$2.19	\$2.15
Cotton, daily price [middling, 1 in., 14 designated markets, lb.]	34.57¢	30.13¢	33.59¢	33.58¢	33.54¢
Wool tops [Boston, lb.]	\$1.96	\$1.65	\$1.81	\$1.81	\$1.81

### Finance

500 stocks composite, price index [S&P's, 1941-43=10]	31.64	57.13	71.69	72.26	71.63
Medium grade corporate bond yield [Baa issue, Moody's]	3.59%	5.10%	5.10%	5.10%	5.11%
Prime commercial paper, 4 to 6 months, N. Y. City [prevailing rate]	2-2½%	3¼%	3%	3½%	3½%

### Banking Millions of dollars

Demand deposits adjusted, reporting member banks	††	63,085	62,777	63,369	65,987
Total loans and investments, reporting member banks	††	109,863	118,170	117,116	117,878
Commercial, industrial and agricultural loans, reporting member banks	††	33,100	33,359	33,252	33,462
U. S. gov't guaranteed obligations held, reporting member banks	††	30,064	34,181	33,813	33,931
Total federal reserve credit outstanding	26,424	28,778	29,817	30,631	30,780
Gold stock	21,879	17,972	17,279	16,975	16,925

### Monthly figures of the week

	1953-55 average	Year ago	Month ago	Latest Month	
Housing starts [in thousands] . . . . .	November . .	101.5	94.5	128.5	105.4
Personal income [seasonally adjusted, in billions] . . . . .	November . .	\$296.1	\$406.0	\$425.2	\$429.0
Farm income [seasonally adjusted, in billions] . . . . .	November . .	\$16.0	\$16.9	\$18.0	\$18.8
Bank debits [in billions] . . . . .	November . .	\$158.1	\$235.1	\$274.7	\$272.5
Domestic air cargo [express and freight, millions of ton miles, A.T.A.] . . . . .	September . .	22.5	43.3	46.4	48.0

\* Preliminary, week ended December 16, 1961.

†† Not available. Series revised.

r Revised.

\$ Date for 'Latest Week' on each series on request.

The pictures: 23, UPI; 24, Charles Buzek; 25, (lt.) Charles Buzek, top (rt.) Herb Kratovil, (bot.) Ted Castle; 38, 39, Bud Blake; 64, UPI; 100, 101, Leonard Nadel.



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BUSINESS WEEK December 23, 1961

## READERS REPORT

### No nit picking

Dear Sir:

I thoroughly enjoyed what you had to say about aviation, "Are airlines going the way of railroads?" [BW Nov.18'61,p91], and thought your summation quite accurate.

There is one aspect, however, on which I would cast a different light. You indicate that more rather than less regulation is in the offing. While this is literally true, if my recommendations about merger studies go through, I do want to be sure you realize that I make this only as a last resort type of suggestion.

My own preference is that the best regulation is the least regulation, consonant with the major public interest. I say major because I am firmly committed to the course of eliminating regulation that could be described only as "nit picking."

Alan S. Boyd

Chairman

Civil Aeronautics Board

Washington, D. C.

### Russian-style cake

Dear Sir:

An interpretation of the current missile gap more disturbing than yours [BW Dec.9'61,p132] is possible.

As stated some years ago, the missile gap consisted of greater numbers of ICBMs on hand in Russia and a capability to out-produce the United States. Russia, however, chose not to build at capacity but to exploit the extraordinary ability of her ICBMs to deliver massive payloads, which the United States was not planning to match. This prompted development of 100 megaton bombs, which require fewer per mission.

Russia then has her cake and eats it—her lead remains with only a moderate effort to manufacture larger nuclear bombs, instead of a massive one to manufacture and support great numbers of missiles.

Leonard Greiner

Richmond, Va.

### Famous families

Dear Sir:

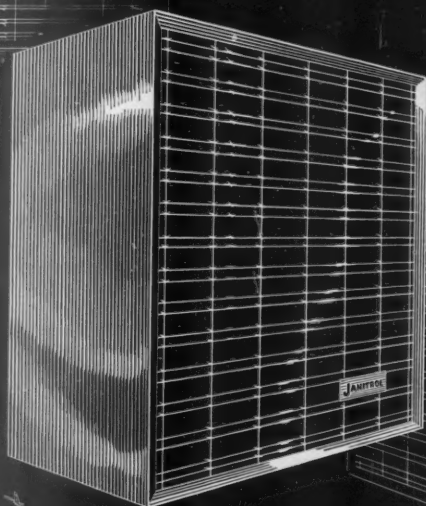
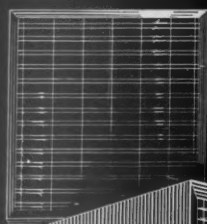
Your fine magazine has quite unexpectedly assumed that Massachusetts' Republicans, like her Democrats, choose families rather

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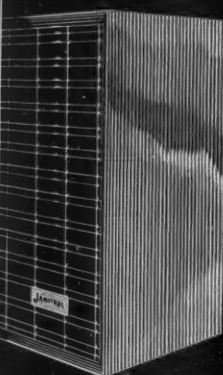
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than individuals to represent them in Washington. Your Washington Outlook [BW Dec.9'61,p41] states that George Cabot Lodge "may be opposed by either... Ted Kennedy, the President's younger brother, or by Edward J. McCormack, nephew of Rep. John McCormack..." in the campaign for the U.S. Senate seat to be (presumably) meekly vacated by Sen. Smith.

There are primaries ahead, and there are many Republicans and independents (and, I suspect, Democrats as well) in Massachusetts who think that the announcement of Lodge's candidacy is exceeded in arrogance only by the announcement of Teddy Kennedy's. Congressman Brad Morse of Massachusetts' 5th Congressional District is considered by many people from both parties (he won handily in a Democratic district) to be by far the outstanding Senatorial candidate in Massachusetts, and a "Draft Morse" committee has been formed by leading Republicans here with every expectation of his being the Republican nominee for the Senate, and the next junior senator from Massachusetts.

The prospect of another Lodge-Kennedy contest makes glamorous copy, but please leave it to magazines less meticulous than yours.

Charles H. Morin

Gadsby, Colson & Morin  
Washington, D. C.

## Tax pros and cons

Dear Sir:

In your Personal Business page [BW Dec.9'61,p113] you refer to a "living trust." You indicate in the proposed example that \$4,440 instead of \$2,700 could be available for the taxpayer's son's college education.

This example is valid if the trust income is not used by the beneficiary for personal needs. If it is used for the maintenance of one whom the grantor is legally obligated to support, the parent-grantor is liable to lose the \$600 exemption for the son or have the trust income taxable to him. Either of which would alleviate the tax advantages cited.

J. J. Dapice

Certified Public Accountant  
New Canaan, Conn.

Letters should be addressed to Readers Report Editor, Business Week, 330 W. 42nd St., New York 36, N. Y.

# Business outlook

**BW**

December 23, 1961

## **Business rise gains momentum**

November results provide solid support for what October returns seemed to be saying: that business is on the rise again after the hesitancy of late summer and early autumn.

Indeed, any preliminary estimate of December results would have to declare that the year was ending on its cheeriest note.

And a look at the Shape of '62 indicates convincingly that the rise will continue at least to midyear, probably well beyond (page 17).

Most of the "big numbers" used to measure the economy now are setting new records each time they are compiled.

Weak spots still exist, of course. Unemployment in particular remains a problem. And homebuilding lacks any real vigor.

Otherwise, about the only figure that leaves anything to be desired is business investment in plant and equipment. This total has yet to get back to the 1957 high—but stands a very good chance of doing so before we are too far into next year [BW Dec.16'61,p19].

## **Production sets new records**

Production, however you measure it, very positively has advanced into new high ground (though a few industries can't match the average).

Gross national product for the final quarter of 1961 is figured to reach \$540-billion or maybe a little higher.

The Federal Reserve Board's index of physical output reached 114 in November, and December is expected to add a point or more.

Factories turning out nondurable goods, starting in June, have been setting new highs almost every month. They rated 120.8 in November (with 1957 equaling 100), up from 111 at the recession's low point.

Durable goods, on the other hand, haven't quite recovered to the peak registered in January, 1960.

The Federal Reserve's index for November placed production of durables at 109.3. That's up from a recession low of 94.3 but it's about 1½ points short of the old high.

## **New orders go on outpacing durable sales**

Durable goods are making up in dollar volume for any shortcomings that may still be detected in physical output.

Moreover, the sustained high level of new orders affords ample assurance that physical volume will attain new highs very soon.

The new orders placed with all factories making durables will average more than \$16-billion monthly for the final quarter of 1960. Single months twice in the past have topped \$16-billion (seasonally adjusted) but this is the first time such a level has been sustained.

The value of durable goods shipped by manufacturers has been rising almost as consistently as new orders (but hasn't been able to catch up with the order book even with some shipments of finished goods out of inventories accumulated during the recession).

Shipments for November were valued at \$15.8-billion by the Commerce Dept. in the flash report published this week. That was easily a record, up from \$15.3-billion the month before and \$13.2-billion in January.



## Business outlook Continued

### Rising income backs up buying by consumers

Revival of consumer demand for durable goods must be credited with an assist in pushing up the volume of new orders and shipments.

Yet consumers aren't doing it alone; their buying of durables still is well short of old dollar records, much less physical volume.

Three other factors are involved: (1) government procurement for defense and for space exploration; (2) business spending to replenish inventories; and (3) rising outlays for plant and equipment.

Corporate earnings probably will have to wait for next year to establish new highs of a sort to support still higher capital spending.

The consumer, on the other hand, already has the most cash ever.

Personal income, after rising only slowly from June through September, resumed its rapid upturn in October and November. The fourth quarter, at an annual rate, won't be far under \$430-billion.

That's up from roundly \$404-billion in 1961's first quarter.

Wage-and-salary payments in November were at a seasonally adjusted annual rate of \$288.8-billion, \$8-billion better than the rate only three months earlier. The gain in a year is nearly \$20-billion.

### Housing starts turn down again

Demand for new homes—which depends more on formation of new households than on personal income—failed in November to sustain the rather encouraging rise scored in September and October.

Starts on privately financed dwelling units last month were at an estimated annual rate of 1,350,000. That was down 80,000 from the month before and wasn't much better than the average for the third quarter.

The main consolation is that homebuilding, though not conspicuously active, is well ahead of its sorry level late last year.

Housing starts, as things now stand, will end this year at just about 1,350,000 (including 50,000 financed with public funds).

This puts 1961 a little ahead of last year with its 1.3-million starts. But it falls quite a way short of big housing years such as 1955 and 1959 with totals between 1.5-million and 1.6-million.

### Steel mills' orders fatten

Stocking up on steel is having more effect on orders for future delivery than on present production at this stage of the game.

More and more mills are beginning to talk about being very nearly booked up for January, at least for the most desired products such as cold-rolled sheet. This means that it will be getting more and more difficult to demand deliveries on rush orders.

Such a situation is a complete switch from that prevailing over the last 18 months during which it has been easy to live hand-to-mouth.

### Machinery prices start to advance

Look for purchases of capital equipment to get dearer (if, indeed, you aren't finding list prices already going up or discounts vanishing).

Makers of many types of machinery are—or will be—undertaking to get prices in line with higher costs already incurred, mainly for labor. This week, in fact, has seen markups averaging from 3% to 5% on some types of construction machinery.

And farmers will be paying more for their production equipment; manufacturers are adding 2% to 3% on to the prices charged dealers.

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## The shape of '62

## The promise



Data: Dept. of Commerce; Business Week estimates

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# Growing again—fast

**With recovery well under way, the new year promises a record rate of activity for the U. S. economy. But it faces tests in important areas—unemployment, prices, balance of payments**

**The U. S. is entering 1962** in the midst of a powerful business upswing.

The once-reluctant consumer has checked in, with a bang, at cash registers around the country. Government spending is climbing fast. Business—sighting the end of the steel contract next June 30 and the possibility of a steel strike or price hike—is trying to build inventories. It is not yet succeeding because its sales are rising so fast. With sales currently strong, the mood of business has shifted toward exuberance.

Already the nation's total output of goods and services has climbed to a rate of \$540-billion or so. This final quarter figure is \$40-billion or

8% higher than the year's first quarter (chart, above).

The momentum of recovery now looks certain to carry the economy up to a \$565-billion rate by midyear. Then there may be a pause—the steel contract ends and inventory building tapers off—and the U. S. fiscal year ends and government spending tapers off (page 20).

At midyear, the economy will have to bridge the gap from expansion powered by fast inventory building and government spending to expansion powered chiefly by an upsurge of business capital spending.

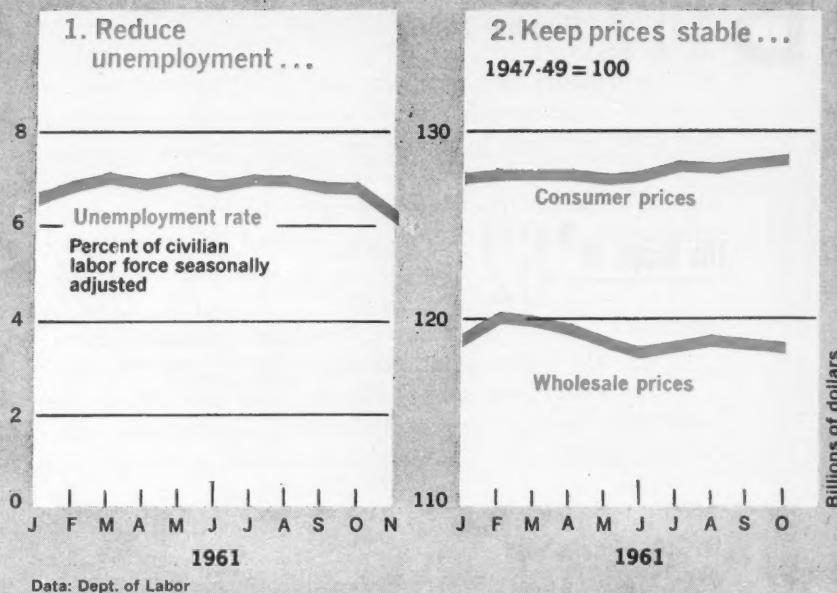
**Make-or-break point.** Getting over that bridge is the critical domestic problem. It will also make or break the Kennedy Administration's chief

economic policy objective—bringing the U. S. economy into a closer and expanded trading relationship with the European Common Market.

A spill into recession, with a worsening of unemployment, would create insuperable political resistance to trade liberalization; it would also damage the Administration at the ballot box next November.

The odds now are strong that the midyear bridge will be successfully traversed. After a slowdown in the rate of climb in the third quarter of 1962, the economy will move forward again in the fourth quarter to an annual rate close to \$580-billion for GNP. That would establish an average of \$565-billion or better in the whole of 1962—a spectacular 8%

# The problems



gain over 1961. And it would set the stage for a \$600-billion economy in 1963.

## I. The problems

The promises that are seen in 1962 are by no means pie in the sky. Yet they cannot be regarded as pie on the counter, either. Some tough problems remain to be dealt with in 1962 (charts, above):

- **Unemployment**, at 6.1% in November, is still too high. With the labor force growing and new technology coming in fast, it's probable that unemployment will stay above 5% in 1962. Labor will be pressing for government action to reduce joblessness faster.

- **Prices have been held in check** by rising productivity, idle manpower and surplus industrial capacity, and stiff competition at home and abroad. But pressure on prices will grow as business moves up and unemployment declines. Concern over inflation will tug government policy in the opposite direction from concern over persistent unemployment—that is, toward restrictive policies.

- **Kennedy has pledged to submit a balanced budget for fiscal 1963.** This is intended to prove to the world (not only foreign central bankers but also U.S. voters) his fiscal soundness. But, behind the scenes, some of his economic advisers are concerned lest the budget come into balance too soon. They worry lest the budget be a restraining force in

the second half of the year—when the first half's expansionary forces will have spent themselves to a large extent.

- **Strains on the U.S. balance of payments** continue and will probably intensify in 1962. Officially, Washington expects a \$2-billion to \$2.5-billion deficit in 1962; some private forecasters think it might be double that. Inflation would surely aggravate the U.S. balance-of-payments problem, probably cause another rush on gold.

**Chance of error.** But a misguided and excessive assault on potential inflation, which might dump the economy into recession, could also damage the balance of payments. Such was the blunder of 1959-60. Then excessively tight money and a huge swing from deficit to surplus caused the recovery to abort, weakened confidence in the dollar, and caused the balance-of-payments deficit to mount. It reached a peak rate of \$5.7-billion in the fourth quarter of 1960 (chart, above).

The task of government in 1962 will be to avoid the fiscal and monetary policy mistakes of 1959, which led to both recession and a balance-of-payments crisis.

And the task of business and labor will be to avoid their own blunders of 1959: a wild buildup of inventories in the first half-year in anticipation of the steel strike, then the long, bruising steel strike itself, and finally the false recovery based on restocking in midwinter. All these shifts helped destabilize the econ-

omy and drop it into an early recession.

Will the critical policy decisions be made more wisely this time than in 1959, and thus keep the economy on a rising course into 1963? Or are we headed for a replay of the same errors—which will produce a slump in 1963?

## II. No replay of 1959-60

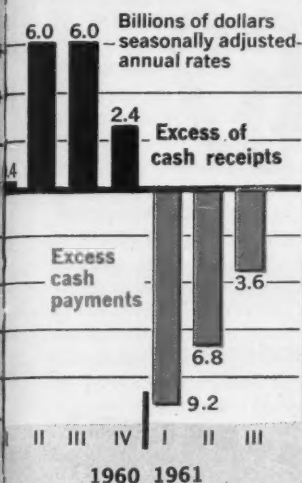
It now looks as though the major errors of 1959 are being avoided, whatever new miscalculations may lie ahead.

**Monetary policy.** In 1959, tight Federal Reserve policy checked the growth of the money supply, pushed interest rates to their highest levels in the postwar period. This time the Treasury and the Fed, working together, have kept money easy far longer into the recovery period. They have permitted only a mild rise in interest rates, and stressed their aim of preventing a substantial rise in interest rates until higher levels of output and employment have been reached. The money supply is increasing smartly—and prices are still relatively stable.

**Fiscal policy.** In 1959-60, the Federal cash budget swung massively—by \$22-billion—from deficit to surplus. This deflationary swing probably did more than anything else to abort the recovery. This time, the swing should be no more than half that great. In 1961's first quarter of recession (chart, page 19), the cash deficit was \$9.1-billion, and only

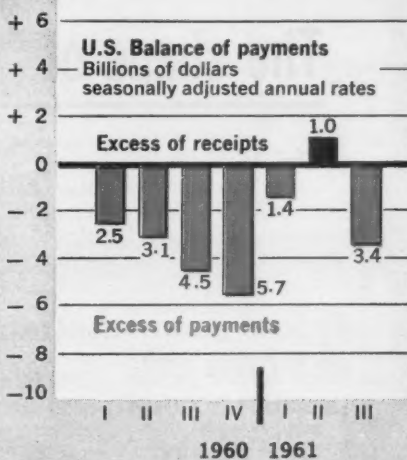
### Balance the budget ...

Federal cash budget



Treasury Dept. and Bureau of the Budget

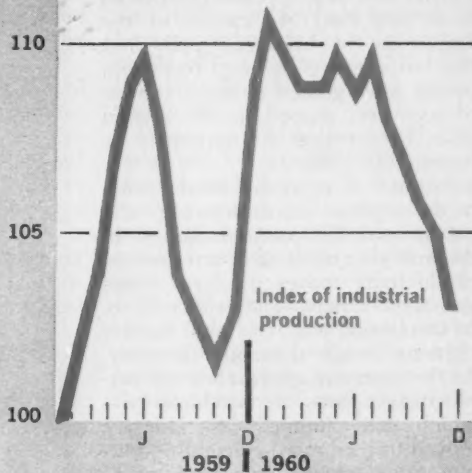
### 4. Protect the dollar ...



Data: Dept. of Commerce

### 5. Avoid repeating 1959-60

1957 = 100



Date: Federal Reserve Board

© Business Week

small cash surpluses are in prospect for 1962. In the income-and-product budget—a more sensitive measure of the economic impact of federal spending and taxing (page 20)—the swing from deficit to surplus in 1961-62 will amount to only \$7-billion this time, compared with \$17-billion in 1959-60. The restraint coming from fiscal policy, therefore, will be more moderate.

**Anti-inflation policy.** The Administration is not yet worrying much about inflation. It expects spare capacity and extra manpower, together with hot competition, to keep prices generally under restraint.

It is using "moral suasion" to try to head off what it regards as the more intractable danger—cost-push or sellers' inflation—stemming from the market power of labor unions or corporations. Whether or not the Administration can use jawbone pressure effectively to curb a wage-price push in 1962 remains to be seen.

George Meany and his AFL-CIO have made known their determination to push hard for higher wages in 1962—and not be much deterred by Kennedy's plea for restraint in holding wage gains within the limits of rising productivity. Meany has declared wage gains could come out of profits—and would help the economy "by increasing purchasing power."

**Monetary cooperation.** Thus there will be considerable upward pressure on prices. As the year wears on, there may even be a genuine whiff of inflation in the air—which could cre-

ate problems for the U.S. balance of payments.

However, monetary cooperation among the U.S. and other major countries, worked out at the Vienna meetings of the International Monetary Fund and reinforced later (page 26), promises to permit the U.S. to aim for a more vigorous recovery without fearing too much that minor mistakes in policy—or some price upcreep—will bring on a ruinous gold rush. Washington hopes that it has taught the international financial world a lesson or two that will reduce the danger of speculation against the dollar.

**Business decisions.** It's not just government that's trying to profit from the mistakes of 1959. Though business is already seeking to build inventories against a steel strike, most companies are concerned about duplicating the pattern of last time: wild first-half stocking, second-half inventory cutting.

The buildup in the first part of the new year will probably be less frantic than last time. It will be slowed in part by widespread belief that the government will not permit a long strike.

Thus, though there are broad similarities between 1959 and 1962, the outlook is for a more moderate pattern this time.

### III. The critical mass

So—with a dash of good luck that now seems to be shaping up—the job of solving the key economic

problems of 1962 successfully becomes a real possibility.

Most importantly, the good luck must take the form of a pickup in capital spending strong enough to carry the economy forward in the second half.

The McGraw-Hill survey in October [BW Nov.11'61,p70] found business planning to boost capital outlays only 4% in 1962, which implied no lift from the \$35.9-billion fourth-quarter 1961 rate. But that forecast, it now seems sure, was an underestimate. Already, the SEC-Commerce survey [BW Dec.16'61,p26] finds business planning to spend at an annual rate of \$36.5-billion in the first quarter.

**Maybe higher.** Two factors now promise to push capital spending still higher:

- Operating rates for industry, which averaged only 80% at the time of the McGraw-Hill survey, are up to an estimated 83% and will go above 85% by the second half of the year. That's a level at which many industries will feel need for more capacity.

- Profits are moving up smartly. In the current quarter, pre-tax profits will run at about \$50-billion; by mid-1962 they should hit \$55-billion. Internal cash flow—retained earnings and depreciation—in 1962 promises to yield as much as \$39-billion. Capital spending usually exceeds cash flow by 10% or 15%. So a capital spending surge above the \$40-billion level seems like a good bet.

**Some risk.** It's not quite in the



bag—because capital spending depends partly on businessmen's expectations of the future. Many economists and executives fear profits may peak out in the second quarter next year. Economists Daniel Suits and Paul McCracken of the University of Michigan point out that after every postwar recession, profits have gained in the first year of recovery, dipped in the second year. They expect the pattern to be repeated in 1962.

In the U. S. economy, these economists explain, unemployment and profits work like counterbalances. In the first year or so after a recession, productivity moves up fast, wages gain more slowly—and profits climb. In the second year, the labor market tightens, wage demands intensify. As the economy approaches full employment, gains in productivity—which had jumped as industry moved toward more efficient operating rates—slow down and profit margins are squeezed. It's the pressure on profit margins that helps bring the economic expansion to an end.

**Dangerous forces.** U. S. business is growing increasingly worried about the forces—wage demands and taxes—that seem to make it impossible to translate rising volume into rising profits as the recovery goes on. That's why many businessmen and investors remain unconvinced that 1962 will mark the start of a strong and continuing business expansion.

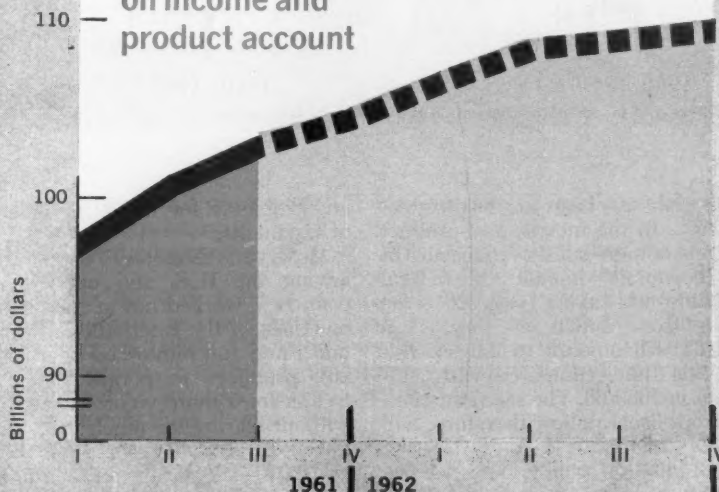
One top Washington economist, making an analogy with nuclear physics, sees the central economic uncertainty for 1962 as one of the "critical mass": whether there will be enough buildup of demand in the first half to kick the economy into self-generating expansion in the latter part of the year.

Kennedy's advisers, cheered by the 3% per quarter climb in consumer spending in October and November and the mighty December boom, now believe the economy is taking off—and that cyclical forces in 1962 will drive down unemployment, while the move toward moderate fiscal and monetary restraints will help cope with the year's other major problems.

The balance of forces in the second half of 1962 will be a delicate one. The dangers that the economy will lose momentum are very real (page 108). But the U. S. has at least a better than fair chance to achieve in the coming year the near-miraculous equivalent of a triple play in baseball: rapid and sustained growth, without serious price inflation and with a balanced budget.

## The shape of '62

Federal government expenditures on income and product account



Data: Dept. of Commerce; Business Week estimates

© Business Week

## Outlays grow—biggest ever

**Government—local, state, and federal—will be spending record sums in a record business year. The estimated 8% boost in federal expenditures will be in step with the economy's growth**

The Kennedy Administration in 1962 is going to spend more than \$105-billion to run the federal government the way it thinks a government should be run. This will be the

largest sum ever to flow through the Treasury in a 12-month period.

State and local governments are going to spend more than \$50-billion—another "biggest ever."



These government outlays will be made in what promises to be a biggest-ever economy, too (page 17). In fact, the rise in government spending foreseen for 1962 will be almost the same as the rise generally predicted for gross national product—around 8%.

**An omen.** There is an omen for the future in this push upward of government spending, step by step with the economy as a whole. Pres. Kennedy shows every sign of wanting to keep it that way.

Moreover, the flow of such vast sums from the people to government and then back again to the people will be a powerful force in shaping the course of business next year. Here are the key factors:

- A substantial rise in federal outlays, now contributing to the rise in business, will taper off by mid-1962 under existing plans. Beyond mid-year, Administration economists hope the private sector will pick up any slack.

- The total fiscal operations of governments at all levels will be virtually in balance for 1962, with revenues offsetting outlays.

- The year will be a time of testing for Kennedy and his fiscal philosophy. He is on his own, no longer operating on plans drawn up largely during the Eisenhower Administration. The vital test is whether the economy can keep on growing, and what Kennedy will do if it shows signs of hesitation. So far he has shown little liking for the kind of reform favored by most fiscal economists—a thoroughgoing overhaul of the income tax structure accompanied by reductions in the top brackets.

## I. The flattening curve

In federal spending alone, some \$50-billion will go to the suppliers of defense goods—up \$2-billion or more over this year.

Around \$25-billion will be paid out to the unemployed, the retired, and other recipients of social security.

Close to \$7-billion will be paid as interest to holders of federal securities.

Subsidies to farmers and some lines of business will total around \$4-billion.

To balance this outflow, personal income taxpayers will provide around \$45-billion in revenue, corporations will shoulder some \$24-billion in income tax liabilities, social security taxes will provide another \$20-billion. Enough additional will come in from other sources to put the total financial operations of the

federal government in the black for the year.

State and local governments will probably continue to borrow about \$1-billion or \$2-billion more than they collect in revenues, and thus will run a deficit. This has been standard procedure for them in the past several years.

**Neutrals.** In an economy the size of that coming in 1962, the net operations of government will be virtually neutral so far as the broad questions of inflation vs. deflation or stimulation vs. contraction are concerned. There will be neither a large surplus of government receipts (to work as a restraint on the economy) nor a large deficit (to work as a stimulant).

Yet one of the major impacts on 1962 is certain to be the halt in the rise of federal spending due to be felt about midyear. The chart (opposite) shows what will happen.

Beginning with the April-June quarter of 1961, federal expenditures have been rising at an annual rate of about \$2-billion each quarter. This rise will extend through the April-June quarter next year but only token rises will occur in the final two quarters of the year, as Administration experts now read the future.

Thus, a major stimulant to the economy will be removed. The most bothersome question about the second half of 1962 (page 17) is whether spending by industry for new plant and equipment, and spending by consumers, will increase enough—and at the right time—to keep the economy moving without a hitch.

## II. Unfamiliar figures

The figures in the chart for federal spending—ranging up to an annual rate of \$110-billion estimated for the October-December quarter—average \$108-billion for the year as a whole. These sums will not be familiar to those used to thinking of federal operations in terms of the traditional administrative budget. The chart uses estimates based on another set of fiscal records, the income and product accounts of the Commerce Dept.

There are two chief differences between the income and product approach and the administrative budget. The income and product accounts include the social security and other trust funds, which are excluded from the administrative budget. And the income and product accounts estimate tax liability as it accrues, while the administrative budget estimates taxes when they are due. This causes the income and product accounts to move more

quickly in response to changes in the economy. Roughly, they reflect business conditions six months sooner than the administrative budget.

**Readjusted.** The administrative budget, rearranged to match calendar 1962, would place federal outlays somewhere in the neighborhood of \$93-billion for the year, \$15-billion less than the income and product approach.

Where the administrative budget (adjusted to calendar 1962) would show a small deficit, the income and product accounts—because they are catching the rise in business more quickly—will probably show a surplus.

The greater size and the greater sensitivity of the income and product accounts explain why this version has gained rapidly in recent years as the best means of analyzing the effect of federal operations on the economy.

## III. 'The budget'

The chief function of the administrative budget is to serve as a guide for bureaucrats and lawmakers in the day-by-day operation of the government. In this role it is so important that official Washington refers to it simply as "the budget."

Shortly after Congress convenes next month, Kennedy will submit "the budget" for fiscal 1963, the 12-month period beginning next July 1. This will call for spending at around \$92-billion or \$93-billion. The President will estimate receipts at a little bit higher level, thus producing a budget that will balance and perhaps show a small surplus.

It is, of course, merely a document, a spending plan. From the day it lands on the Speaker's desk in Congress until Congress goes home sometime in late summer or early autumn, the plan will be subject to change.

Kennedy, for example, will include around three-quarters of a billion of receipts from an increase in postal rates that he will ask for—and that Congress refused to grant this year.

**Easy to change.** The spending side can be greatly changed, whether by Congress or by future decisions of Kennedy himself. More trouble in Berlin, the Congo, Laos, South Vietnam could knock out the surplus Kennedy now projects. So could an unexpected falling-off in business activity.

Even without drastic new actions by Congress or Kennedy, there is a strong likelihood that the budget document will underestimate actual spending. A reasonable guess is that

expenditures in the 1963 fiscal year will go over \$94-billion just on the basis of programs and trends now under way.

The small surplus Kennedy will call for in the budget document thus seems quite likely to disappear before the year ends June 30, 1963, leaving a deficit. Barring major new spending programs, or an unexpected hitch in the pace of business, this deficit would probably be fairly small, not large enough to become a talking point for Republicans in the ceaseless political warfare over the direction the federal budget is taking.

**Nervous.** Kennedy, a nervous warrior in this field, doesn't want to give the GOP another deficit to talk about. But for reasons to be touched on in the next section, he probably won't be able to avoid it.

Another set of numbers will attract unusual attention when Kennedy sends the budget document to Congress next month. These will be the estimates for spending authorizations, which differ from the spending estimates themselves.

Where Kennedy is expected to call for spending of around \$93-billion, he will likely be asking for authorization to spend an additional \$7-billion or so. If our international economic affairs are well handled, most of this extra sum need never be spent. About \$2-billion is for expanding our commitments to the International Monetary Fund, and about \$3-billion for underwriting the Export-Import Bank's new program of loan insurance.

#### IV. Time of testing

No matter which particular set of fiscal concepts is used, 1962 will be a crucial year for Kennedy.

Kennedy is caught in a thicket of conflicting goals and wishes.

He believes in big government; he'd like to raise spending across a broad front for both military and civilian purposes even more than he already has.

But he does not like deficits and is sensitive to Republican charges of being fiscally irresponsible.

Moreover, through Treasury Secy. Douglas Dillon and in repeated public statements of his own, Kennedy has promised the international financial community to balance the budget as a major move in defense of the dollar.

He could try simultaneously for both more spending and a balanced budget if he would increase tax rates. He has said he prefers higher taxes to deficits. But Congress would probably not vote the in-

creases, and his own economic advisers keep reminding Kennedy that higher rates could slow down the economy—perhaps to the point of a serious recession.

**Trouble ahead.** So Kennedy's hopes for higher revenues are pinned to economic growth—and here he may be making trouble for himself.

Most fiscal economists feel that the present tax structure weighs too heavily on the economy to allow growth at the pace Kennedy and his advisers plainly wish for.

These economists point to the income and product accounts for illustration. When these accounts are drawn up for the current quarter, they may show that federal operations are even now subjecting the economy to a mild restraining influence, though there is still much unused capacity in industry and unemployment remains above 6%. If this restraint is not currently being exerted, it almost certainly will be felt early next year.

Economists of almost all shades of opinion agree that the present tax structure balances the income and product accounts too early in each recovery and thus slows down long-run growth. There is wide agreement that a really fundamental reform of the tax structure would stimulate economic growth and lead eventually to higher revenues. But it would probably cost some revenue for a year or two and this prospect may stay Kennedy's hand, as it did Pres. Eisenhower's.

**Balancing.** Kennedy's caution is shown in the way he is trying to liberalize tax deductions for depreciation. He is willing to give buyers of new equipment a break on their taxes, but only if an equal amount of new revenue is raised by tightening up on profits earned abroad, cracking down on business expenses, and installing a system of tax withholding on interest and dividends.

More will be known of Kennedy's ideas if he submits a tax reform plan to Congress in 1962, as he has promised to do. It is expected late in the Congressional session, too late for action next year.

#### V. The spending push

Problems of another sort confront Kennedy on the spending side of government finance.

Pentagon budget experts are estimating that spending for defense will be over the \$50-billion mark for each of the next five years, compared to an average of \$45-billion for the five years, 1957-61.

Spending for space, which has both military and civilian implications, is just beginning a multi-billion-dollar expansion.

The Administration is still dissatisfied with its ability to fight limited wars; there is still a push for a larger—and more expensive—force of full-time professionals.

Atmospheric testing of nuclear weapons is likely to be resumed, with possible consequences later on spending plans.

Military research and development—already costing \$5.2-billion—will rise at least a half-billion higher in fiscal 1963, and will not stop in the foreseeable future.

Aircraft buying is still dropping, but greater output of Minuteman and Polaris missiles will lead the procurement budget into new high ground. And beyond lies the problem of developing and equipping an anti-missile defense system.

**Civilian sector.** But civilian spenders are also pushing the White House for more attention.

Manpower retraining, a revamped public assistance program, expansion of the experimental food stamp plan, aid to education, medical aid for the aged, billions for urban redevelopment and for urban transportation systems, money to help industries and workmen hurt by rising imports—these are only some of the places to which the President can direct more spending as he finds the money.

The backers of civilian programs won't get much new money in the next fiscal year. Kennedy wants to hold the total spending rise to around \$4-billion. Of this, the military will take something over \$2-billion and the space program will be increased about \$1-billion. This will leave only a half-billion or so to be passed around among the civilian agencies.

**Standby powers.** Kennedy has said that he will ask Congress for standby authority to increase outlays for public works in case of a recession. As the idea will be offered by the White House, it is not likely to trigger higher expenditures during 1962, barring an unexpected nosedive by the economy in the second half of the year.

If the economy falters at midyear, however, demands for more spending will pour from Democrats in Congress, and Kennedy will probably issue the orders that will start the spending curve up again, away from the plateau now indicated for the second half of the year. A spending rise rather than tax reform is the more likely prospect if events force a change in fiscal plans.



Nationalists from Goa staged a victory parade in the streets of Bombay but . . .

## It's a grim week for the divided U.N.

**And the U. S. stands in the middle, criticized by its European allies yet unsupported by the Afro-Asian bloc that holds the balance of power in the General Assembly**

**Pres. Kennedy** returned from the friendly political climate of Venezuela and Colombia this week (page 75) to face a chain reaction of anti-colonial violence in Africa and Asia. The Congo simmered dangerously, India invaded Goa, and Indonesia threatened to attack Dutch New Guinea (West Irian).

For Washington, these crises are painful. They threaten the beleaguered United Nations, impose new political strains on the Atlantic alliance, and focus a critical spotlight on the whole question of U. S. policy toward the U. N.

By clinging stubbornly to its full support of the U. N., Washington seems to stand alone among the world's capitals, with a kind of monopoly on noble sentiments toward the U. N. and hard-put to explain its position.

**Ambivalent position.** On the Goa question, the U. S. sided with its West European allies in denouncing India's aggression against the tiny Portuguese enclave (picture). Then

the Soviet Union, with Afro-Asian support, vetoed a resolution calling for a cease-fire. Thus, the U. N. was powerless to halt or even censure Prime Minister Nehru's attack.

In the Congo, the U. S. has acted contrary to its allies but in cooperation with the Afro-Asian bloc—the same group it opposes on Goa. To European officials—and a growing number of critics at home—it looks as if the U. S. backing of the campaign against Katanga has helped to promote a double standard at the U. N.

With more than 40 Afro-Asian nations holding the balance of votes in the General Assembly, the U. N. in effect has accepted without censure an Asian military attack on Western interests while actually launching an attack of its own against a rebellious but pro-Western government in the Congo.

**Colonialism.** Moreover, the future is certain to bring a series of similar crises. Outbursts appear inevitable in Angola and other Portuguese ter-

ritories in Africa. Some day, China may attack Britain's Hong Kong or Portugal's Macao. Nearly every major region of the world has some vestige of the colonial period, from Panama to Spain's Rio Muni on the African West Coast.

Ever since World War II, of course, the U. S. has encouraged Europe to withdraw from its colonies in Asia and Africa. The alternative, in Washington's view, has been direct Communist military attack or Communist-led revolution.

In practice, this has been a hard policy to follow. Often the U. S. has wound up on the fence, resented by nationalists and by Europeans alike.

While the British liberation of India was relatively smooth, U. S. political support of Indonesian nationalists left deep scars in Holland without winning much gratitude from left-leaning Pres. Sukarno. In Indo-China, because the nationalist movement was directed from Peking and Moscow, the U. S. gave massive military help to France. Now the French blame the U. S. for not having done enough, the Afro-Asians for having helped at all. In Algeria, too, the U. S. has been under fire from both sides.

**Relying on U. N.** Today, to lessen its own vulnerability and to make direct Soviet intervention more difficult, the U. S. uses the U. N. as an instrument of policy whenever it can. That way, our involvement is more indirect.

Through the U. N., for instance, Washington opposed the British, French, and Israelis in their invasion of Egypt. The U. S. pulled the U. N. mantle over its own intervention in Lebanon. In the Congo, all U. S. aid is funneled through the U. N.

This policy is part of an underlying contradiction in Washington's position. In attempting to build up the peace-keeping role of the U. N., the Administration stands upon provisions of the Charter outlawing the use of force to achieve national objectives. But the U. S. has never accepted a blanket restriction on its own use of force in the national interest. In the case of Cuba, the President has explicitly reserved the right to use force against Castro if all else fails.

**Inconsistency?** This contradiction is a key element of new tensions in the Atlantic alliance. To many Europeans, U. S. policy seems to add up to prohibiting them from using national force (as at Suez), giving Africans or Asians a franchise to use force against European powers (as in Goa), and leaving the U. S. and the Soviet Union a free hand.

U. S. officials concede there is some



justice in this criticism. They still insist that the U. N. remains the best device available for limiting the violence of colonial conflicts and limiting direct U. S.-Soviet engagement in them. But they admit they are increasingly worried.

U. S. policy toward the U. N. is generating a great deal of criticism at home as well as among our friends abroad. If the split with our West European allies continues to grow, it could weaken Allied unity in the Berlin crisis and even jeopardize the Administration's hopes for consolidating the Western economic partnership under Pres. Kennedy's new trade policy.

Furthermore, the outlook for the UN appeared grim at midweek.

**U. N. on trial.** Adlai Stevenson, U. S. ambassador to the U. N., called the failure of the U. N. to act in Goa "the first act in a drama which could end in its death." Britain's foreign minister, Lord Home, warned that Britain might have to withdraw financial support from the U. N. if it adopted a double standard toward the use of force.

In the Congo, the U. N.'s already diminished prestige was heavily staked on getting a long-term settlement between Pres. Moise Tshombe of secessionist Katanga Province and Premier Cyrille Adoula of the Central Government. Failure might confront the organization with a continuing—and increasingly divisive—military action in Katanga. Success would only partly offset the damage done by India's flouting of the U. N. Charter.

In Indonesia, the U. N. has a good chance of losing even further prestige. Pres. Sukarno, stirred by India's successful conquest of Goa, alerted his troops for an attack on Dutch New Guinea. At midweek, it seemed unlikely the Afro-Asians at the U. N. would vote to intervene if Sukarno goes ahead. Earlier this year, the General Assembly defeated a resolution that would have put Dutch New Guinea under a U. N. trusteeship. Opposition was led by the Afro-Asian and Soviet blocs.

While India's seizure of Goa has increased domestic pressure on Sukarno to invade Dutch New Guinea, military experts in Washington say the Indonesian leader lacks the necessary air and sea transport to mount a sustained attack.

Even if the Congo crisis is settled, Goa forgotten, and Dutch New Guinea left unmolested, U. S. officials fear that the U. N.'s usefulness in future crises has been impaired—and that continued U. S. support for the U. N. threatens to bring even greater strains on Western unity.



Chicago: Italian-made lamps light up the 65 trees on North Michigan Avenue.

## Some of the sparkle comes from abroad

Foreign companies now supply two-thirds of Christmas tree lights sold in U. S. Americans still dominate outdoor lighting (pictures), but face competition here, too

**Spurred partly** by the bright lights of their cities and shopping centers (pictures), Americans rushed out to buy over 250-million twinkly bulbs for their Christmas trees in the six days ending Christmas Eve. That's about half of their yearly purchases of tree lamps; they bought up the other 250-million in the previous three to four weeks.

Good news for U. S. Christmas lampmakers? Not exactly, because a good two-thirds came from Japan, in the estimate of General Electric Co., one of this country's largest makers of tree lights. In 1954, domestic pro-

ducers, mainly GE and Westinghouse Electric Corp., shared virtually the whole 320-million yule lamp market. Today, U. S. companies are fighting to hold one-third of the 500-million unit market. GE, in fact, is shutting down one of its Christmas lamp plants in East Boston.

The Japanese export 200-million bulbs under their own quota system, and another 150-million of midget lamps and odd sizes that are non-quota. Italy and others hold a tiny share of U. S. sales.

**Outdoor splurge.** But the growing splurge on outdoor lighting that sets





The 175,000 bulbs cost \$15,000.

American shopping districts ablaze at Christmas heartens U.S. lamp-makers. Most of these bulbs are large lamps, produced in America, and the market for such lighting, GE estimates, is growing about 5% a year. Joseph H. Ward, president of Noma Lites, Inc., whose company makes home and outdoor strings, notes a "substantial increase" in his orders for outdoor lighting.

U.S. producers also hold the market for single-lamp floodlights for use with aluminum Christmas trees; these trees, now accounting for some 14% of trees used in homes, actually hold back sales of traditional miniature lamps.

But even in outdoor lighting, imports are taking their share through the 10% to 15% of miniature lamp sales that go outdoors. All of the lights along Chicago's Michigan Avenue (picture) were made in Italy. George G. Silvestri, president of Silvestri Art Mfg. Co. [BW Dec. 17 '60, p116], who imported about 17-million Italian lamps this year, believes imported Christmas lights may eventually replace American-made ones. Tooling and wage costs, he says, are too high in the U.S. for such a relatively small market.



**New York:** Bright carousel highlights lobby display in Lever Building on Park Avenue. Long line of trees in avenue's center island each bear 400 lamps.



**San Francisco:** Palmetto and conifer trees growing in Union Square come ablaze with Christmas lighting during the holiday season.

# Dollar gets new defenses

**Paris agreement by 10 nations to bolster IMF provides stronger buffer against attack**

The battle lines for the defense of the dollar are being drawn more clearly week by week.

In Paris last week, Wilfrid Baumgartner, the French Finance Minister, announced that the West's 10 leading industrial nations had initiated an "agreement in principle" to strengthen the resources of the International Monetary Fund. The agreement, called the Jacobsson plan after Per Jacobsson, head of the IMF, was discussed in Vienna last September [BW Sep.23'61,p30]. Ever since the meeting, the potential contributors have been working to iron out the details.

Acceptance of the agreement was a victory for Jacobsson and the U. S. for when the plan was broached in Vienna, many Western Europeans, including Baumgartner, refused to give it any blanket endorsement. They were critical of the U. S.' lack of fiscal discipline, and intimated that they would insist upon a great many conditions before agreeing to provide funds to help defend the dollar.

Despite their tough talk, the agreement in Paris met the deadline set by Jacobsson. Though the plan must be formally approved by both the IMF executive board and the legislatures of several participants, the fact that a "consortium of lenders" was formed indicates that the nations of Europe are determined to pull together in a concerted effort to bolster the existing financial mechanism.

**Buffer.** The Paris agreement does not, of course, solve the basic balance-of-payments problem afflicting the U. S., the U. K., and the countries of Europe. It is designed to provide a buffer for dealing with short-term currency strains, giving a protective cushion to a country hit by a sudden outflow of funds.

All told, the 10 countries have agreed to furnish the IMF with some \$6-billion in stand-by credits. This, by itself, should make speculators pause. As some officials see it, the Paris agreement is not only significant in practical terms of providing a big new reserve. Even more important, it demonstrates that international cooperation, which is necessary to stem a speculative run, is being reinforced.

The first big step toward greater cooperation took place last spring, after the German upward revaluation of the D-mark. This brought a speculative run against sterling, and European central bankers, meeting at the Bank for International Settlements in Basle, Switzerland, agreed to hold each other's currencies as a means of protecting the pound [BW Apr.22'61,p45]. The Basle agreement proved successful, but Jacobsson and other central bankers felt that additional—and more formal—measures were essential to guard against speculative runs.

**Provisions.** While the Paris agreement is regarded as added protection for the dollar, it can be used by any member of the lenders' consortium whose currency comes under attack. The U. S. is putting up \$2-billion; the U. K. is expected to provide about \$1-billion; the Common Market countries are down for a total of \$2-billion, while Sweden, Canada, and Japan will put in altogether about \$1-billion. Switzerland, which is not an IMF member, may also be involved in the consortium to the tune of \$500-million.

Details about the really tricky part of the negotiations—involving the voting rights of the club—are still private. According to reports, though, there will be no formal veto, which some of the lenders had wanted. But the consortium will not provide credits unless there is general agreement between the lenders and the borrower over the policies the latter will follow. In addition, there's a "reversibility" clause, which permits a member to back out of its commitment if it gets into payments difficulties when another country is drawing on the pool.

There's also talk that Common Market countries sought a formal pledge from the U. S. that its entire gold stock (and not just the \$4.5-billion now available in excess of the 25% gold backing for the dollar) would back up any U. S. drawing. Pres. Kennedy made such a pledge in his balance-of-payments speech last February, and it's reported that U. S. willingness to provide a gold guarantee helped speed negotiations.

# Chemical giants to merge

**Britain's Imperial Chemical Industries bids for Courtaulds**

Britain's largest industrial group, Imperial Chemical Industries, Ltd., moved this week to acquire another giant, Courtaulds, Ltd., with a \$500-million share exchange bid. If successful, the merged company will have assets totaling \$2.5-billion.

As a chemical maker, ICI is second only to du Pont. Courtaulds, Britain's largest maker of synthetic fibers, also makes paint and chemicals.

Insiders expect some opposition, but say the merger should go through. If it does, say U. S. chemical makers, "it will be equivalent to du Pont buying Monsanto."

The merged company will be the third largest outside the U. S., behind Royal/Dutch Shell and Unilever. It will control 90% to 95% of the British synthetic fiber industry. It will have a powerful worldwide marketing setup—including strong U. S. ties through ICI's Arnold Hoffman & Co., Inc., and Courtaulds (Alabama), Inc., among others.

**Objective.** ICI's surprise move is aimed specifically at its two arch rivals: du Pont and France's Rhone-Poulenc/Rhodiceta. ICI wants to offer, as they do, the big three classes of synthetic fibers—polyamide, polyester, and acrylic. It now has nylon (a polyamide) and Terylene (a polyester). Courtaulds, with Courtelle, is strong in acrylic. Together, they will be just behind du Pont in output and ahead of Rhone-Poulenc.

ICI also is toning up its muscles for Britain's entry into the highly competitive Common Market, and probably a sales invasion of the U. S.

ICI already is a formidable competitor for the U. S. chemical industry, and the merger will strengthen its resources. At midweek, there were rumors in London that du Pont was so concerned it offered a counter bid to Courtaulds. Du Pont later denied the rumors.

# NEW BELL SYSTEM DIAL-PBX ELIMINATES MANUAL SWITCHBOARD, SPEEDS COMMUNICATIONS INSIDE AND OUT



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**F. J. Lenfesty, president of F. Hurlbut Company, Green Bay, Wisconsin, tells how his company profited from dial-PBX:**

"Calls from some of our cement products customers were being delayed at our main switchboard, especially during busy hours. On the recommendation of one of your Communications Consultants, we installed a dial-PBX, and now

customer calls are handled quickly and efficiently. We've saved one-third of our operators' switchboard time, and we're making sales that might otherwise have been lost. Our changeover to dial-PBX was well worth the money."



**BELL TELEPHONE SYSTEM**



# Full speed on faster write-offs

**Dillon prods IRS on general revision of Bulletin F, sets a deadline on six industry studies, as IRS textile memo shows how fast write-offs can be used retroactively**

The Internal Revenue Service program for liberalizing depreciation write-offs on productive plant and equipment for industry by next spring is proceeding under a full head of steam—much of it provided by Treasury Secy. Douglas Dillon.

Dillon and his aides have been insisting that IRS proceed on a crash basis—cut through detail and red tape to announce at the earliest possible date the revision of Bulletin F, the official guideline on depreciation schedules—even if rough edges have to be cleaned up later.

IRS engineers and regulation writers have been bucking this kind of pressure. They're used to taking whatever time they need to handle the infinite number of technicalities that tend to engulf any major rewrite of IRS regulations.

## I. Bible for textiles

A good example of IRS ways is the important IRS memorandum finally published this week. The textile industry had been awaiting this ever since the Oct. 11 announcement of the new useful lives for textile machinery used by textile manufacturers [BW Oct. 14 '61, p. 32].

The new revenue procedure spells out how textile manufacturers can now revise their depreciation deduction schedules on equipment already in use to take advantage of the shorter useful lives announced last October. The effective date of this week's memorandum permits textile companies to file amended returns for tax years ending July 31, 1961, or later—and get tax refunds based on the new faster write-offs.

**How it works.** Here's how it works for textiles. The new IRS memorandum (TIR-350) uses as an example a machine costing \$100,000 that was being depreciated over a 25-year useful life but has been given a 15-year useful life under the October revisions, and that has been in use five years.

The IRS regulation requires that a company figure what the annual depreciation rate would have been on this equipment under the new 15-

year write-off. The company then applies these new deduction schedules to the dollar amount of depreciation still due the company. In the examples given, this results in writing off the remaining balance of the original cost in 12 years under the straight-line and sum-of-the-digits systems, and 17 years under the declining-balance method.

A company using the straight-line method of depreciation allowances could step up its deductions from \$4,000 a year (for the first five years under the old rate) to \$6,667 for the remaining years under the new rate. For the sum-of-the-digits method the new shorter life provides a \$9,941 write-off in the sixth year, substantially higher than the \$6,462 allowance taken in the fifth year under the old system. For the double-declining-balance method, the sixth year's depreciation would be \$7,751, as against the \$5,731 taken in the fifth year under the old system.

The straight-line method permits the same yearly deduction through the revised useful life of the equipment; the other two methods, approved by Congress in 1954, permit deducting two-thirds of the cost in one-half the useful life.

**Switching.** Textile companies are already taking advantage of the revision. According to officials of the American Cotton Textile Manufacturers Institute, meeting last Monday in Charlotte, N. C., some in fact are switching from the double-declining-balance method to the sum-of-the-digits method because of the immediate larger tax deduction it permits under the revision.

## II. Wider goal

Some such retroactive feature is expected to be made available to other industries next spring.

IRS engineers—mostly in teams of three—have been scouring the plants of six other major industries for the past couple of weeks.

One three-man IRS team visited some 10 machine tool plants in the Cincinnati and Cleveland areas during the past two weeks. Another

visited a dozen electrical equipment manufacturing plants in Pittsburgh, New England, and the Middle West. A third team saw U. S. Steel officials in New York on Monday after visiting Pittsburgh, were at Bethlehem Steel's Sparrows Point, Md. plant on Tuesday, and will visit plants in Alabama, Texas, and California by the first of the year.

Railroad officials spent all day Monday with a group of IRS engineers in Washington. Autos and aircraft are getting similar study.

**Same story.** Basically, the IRS men are getting about the same story from all these industries: The rate of obsolescence of productive equipment is accelerating—and shorter lives must be allowed to take this into account.

The machine tool industry, for example, is suggesting write-offs for machine tools in six to 10 years, against the present 15 to 20.

Manufacturers of electrical machinery and equipment say that the kind of specialized equipment now on production lines was not even in existence when Bulletin F was last revised in 1942.

Dillon's deadline for completing work on these six industries is "the latter part of January."

**All at once.** Dillon's spring deadline for announcing revisions of Bulletin F covers all industry—not just the six now under special study. But only one announcement will be made for all industries.

Private guessing is that something like the textile rulings will be forthcoming for other industries. The IRS textile decision reduced the Bulletin F useful lives of major items of equipment from 25 years to 15 years. But many large and alert companies had already won 18-year write-offs on much of this equipment.

Thus the revision liberalized write-offs only slightly for large, aggressive companies. But it did give to the smaller, less alert companies the same faster write-offs as their larger competitors.

In steel, electrical equipment, and other industries, this may well be the pattern, too.



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## WINNER

*Technical Service Department at Sharon Steel takes the gamble out of quality to help make every product a winner*

This is not a modern version of the old "shell game," but the end result of a molecular distribution test made on steel. It happens in the Technical Service Department at Sharon Steel with every coil of steel we produce. One simple operation on a draw press tells the story. The straight, non-eared edge on the "winning" shell above indicates good random orientation of molecules in the steel. This clean-cut evidence of proper rolling techniques assures our customers of a finish cut when they work the steel and automatically eliminates the need for subsequent trimming and waste of time, labor and material it entails. The scalloped edges on the other two shells, on the other hand, are proof of undesirable directional orientation of molecules. This is just another one of many ways Sharon's Technical Service Department watches every detail of steelmaking to assure our customers of the finest steels possible. With the aid of the most modern equipment available, a staff of 70 specialists not only helps to maintain a winning reputation for manufacturers, but is also prepared to work closely with them in solving any material problems they may be experiencing. You risk nothing to find out how. Simply contact your Sharon Steel salesman or write direct to the Sharon Steel Corporation, Sharon, Pennsylvania.



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# In business

**BW**

## U. S. aide prefers direct branching to mergers for bank expansion

Controller of the Currency James J. Saxon this week indicated he favored bank expansion—the hard way.

The opinion came in Saxon's first major decision since taking office, the rejection of the request of First National City Bank of New York to acquire the National Bank of Westchester. He said that what he opposed was not bank expansion but this method of carrying it out. The taking over by First National City of Westchester's largest bank, he said, would lead to "unreasonable distortion and dislocation" in the area's banking structure. Direct branching, he suggested, was a better way to expand.

Saxon's arguments may be used by advocates of a more liberal branching law. Bills to permit statewide branch-banking will be introduced in the next session of the New York legislature where powerful opposition exists. But if there is any change in New York's laws, it would encourage bankers in other states who also oppose strict controls on branches.

## 3-M abused its prized stable of patents in monopoly try, antitrusters charge

Minnesota Mining & Mfg. Co.'s stable of patents has long been its pride—a major factor in its sales growth to \$550-million from \$4.5-million in 30 years. That's one reason why the company this week refused specific comment on the federal indictment secured in Danville, Ill., charging 3-M with abusing its patents in an effort to monopolize sales in three of its product lines.

The fields, involving about a third of total 3-M sales, are: pressure sensitive tape (about \$100-million), magnetic recording tape (\$25-million), and aluminum presensitized lithographic plates (\$11-million).

The indictment in effect says that 3-M tried to use its patents to regulate an entire industry. It charges that the company sought to fix prices, control markets, and monopolize the three fields through licensing agreements with competitors. Eleven other companies were named, but not as defendants, in the nine-count indictment.

## Nearly half a billion earmarked for community fallout shelters

For the first time in the checkered career of civil defense, Washington is planning to spend federal funds for large-scale construction of public fallout shelters. The Defense Dept.'s new Office of Civil Defense will allot more than \$400-million next fiscal year to cover about 60% of total costs; local schools, hospitals, and other public institutions must provide the rest of the construction funds.

To qualify for a subsidy, a shelter will have to hold at least 50 persons. Pentagon experts figure 10 sq. ft. of shelter space per person, at total cost of around \$40 for each such unit of space. The target: construction of about 20-million shelter spaces next year. The government is expected to stock each shelter with food, water, first-aid kits, and radiation meters.

Subsidized shelters must be open to the public on a racially nonsegregated basis, under local civil defense direction. The Defense Dept. doesn't plan to offer any incentives to construct family shelters or shelters for private use in commercial or industrial buildings. But it is going ahead with plans to distribute updated plans for low-cost backyard or basement shelters for homes.

## 1,000 claims staked in gold rush in wilds north of Yellowknife

Canada's gold mining industry has just completed one of the most feverish rushes in recent years. Nearly 1,000 claims have been recorded in the past two months on the treeless pre-Cambrian shield at Lake Contwoyto, some 300 miles northeast of Yellowknife.

Prospectors were first alerted when Canadian Nickel, Ltd., the exploration arm of International Nickel Co., recorded approximately 300 claims in the Contwoyto area in October. Then, despite the approaching freeze-up, mining companies and individuals rushed in to tie onto Inco claims. For instance, Conwest Exploration Co., Ltd., officials worked in minus 40F weather until two weeks ago staking some 200 claims.

## Transatlantic airlines vote on plan extending excursions to 21 days

The possibility of airline ticket price changes continue to make news this week. Nineteen transatlantic airline members of the International Air Transport Assn. were voting by mail whether to accept proposals agreed on by six member airlines at a meeting in Bermuda. These proposals call for a 21-day excursion fare to take the place of the current 17-day rate.

Also being voted on is a new group plan, calculated to counteract the growing charter business. Under this proposal, 25 or more members of a bona fide organization could buy tickets on regularly scheduled planes for \$300 round trip New York to London, for 62% of their regular economy fare. A typical summer-time charter, in which the whole plane must be chartered by a group, comes to about \$270 a person round trip.

At midweek there was also ferment on the domestic airline scene. The Civil Aeronautics Board voted against renewing a temporary coast-to-coast bargain excursion fare that expired Dec. 15. An estimated 10,000 people who had paid the excursion price were left with the alternatives of paying as much as \$92 more a ticket or not flying. The Board is scheduled to announce a major policy decision on airline fares any day.

# Washington outlook BW

December 23, 1961

## U. N. is thrust into domestic politics

For the first time in years, U. S. relations with the United Nations seem to be blowing up into a major political issue.

Former Presidents, Truman and Eisenhower, and then Pres. Kennedy made warm support of the U. N. a major factor in their foreign relations.

Until recently, criticism of this policy has come almost exclusively from groups on the far right. This has not been taken seriously by the men who have been running affairs in Washington.

The U. N. fighting in Katanga—backed by the Administration—and India's attack on Goa are changing the political factors (page 23).

## Senate probe demanded by U. N. critics

Demands are being made for a Senate investigation of the Katanga situation.

Sen. Thomas J. Dodd (D-Conn.), a member of the Foreign Relations Committee, is leading the move for a full-scale inquiry. Sen. Frank J. Lausche (D-Ohio), also on the committee, supports Dodd. Sen. J. W. Fulbright (D-Ark.), the powerful chairman of the committee, has been noncommittal. So far, Sen. Albert Gore (D-Tenn.) is the only member to defend the Administration's support for the U. N. military moves in Katanga. Republicans will back an investigation.

The GOP tone has been set by Richard M. Nixon, with a sharp criticism of the Kennedy Administration.

## Kennedy moves to muffle GOP criticism

Kennedy plainly senses the possibility of a bitter partisan clash.

Early in the U. N. move against Tshombe's Katanga forces, Kennedy telephoned Eisenhower to explain the background. Kennedy had a high-ranking State Dept. official telephone Nixon with the same information.

These tactics worked for Kennedy at the time of the Cuban fiasco. He managed to keep partisan criticism to a minimum by personally explaining his case to top-ranking Republicans.

This time it doesn't seem to be working.

It's still possible that the Katanga affair will turn out well for Kennedy. Tshombe could yet make a working agreement with the Central Government, and some way of harnessing the pro-Communists under Gizenga may be found. If this happens, Kennedy can claim a major achievement.

But to critics of the U. N., the chances look slim.

## Effect of elder Kennedy's stroke weighed

The serious stroke that this week partially paralyzed Joseph P. Kennedy, the President's father, came at a time when there was rising speculation about the elder Kennedy's role as unofficial adviser to the President.

Pres. Kennedy and his father were together often during summer and autumn weekends at family gatherings in Hyannis Port, Mass. When the President stopped 24 hours at Palm Beach early in the week to nurse a cold, his father met him at the airport, then took him to the plane the next day.

There have been many such opportunities for the elder Kennedy to expound his own conservative views.

Publicly, the President has always pointed out that he and his father disagree on matters of economic policy. During last year's campaign and the early months of Kennedy's Administration, there seemed to be a studied effort to keep the elder Kennedy at arms length. This period ended last summer.



## Washington outlook Continued

Political circles wonder whether the President had been actually accepting his father's advice, or whether the elder Kennedy was being groomed as a go-between for the White House with his conservative businessmen friends. In either case, illness now intervenes. A powerful conservative spokesman close to the President has been sidelined, for the time at least.

### U. N. silence on Goa stirs up more heat

The U. N.'s inability to act in the face of a Soviet veto against India's invasion of Goa stirs up another set of critics. These see the veto of a U. S.-backed cease-fire resolution as proof that the U. N. is accepting a double standard of morals—one standard for the U. S. and its Western allies, another standard for the Asian-African bloc.

Sen. Richard Russell (D-Ga.), powerful chairman of the Armed Services Committee, has assailed India's Nehru as a "hypocrite" for ordering the Goa invasion. Russell is calling for a fresh look at our relations with neutral countries.

### Accuracy, economy kill railcar ICBMs

A decision to seek greater on-target accuracy in missile warfare is one factor behind the cancellation of railroad cars as launching platforms for the Minuteman ICBM.

Fired from underground silos, the Minuteman is rated as an extremely accurate weapon, capable of destroying relatively small, pinpointed targets. Fired from railroad cars, it was seen as only another weapon to be used against whole cities. The Pentagon stressed dollar savings in explaining the move.

The decision against railcar launchings wipes out contracts in the works for American Machine & Foundry Co. and ACF Industries, Inc.

### \$1-billion pay rise studied for U. S. employees

Kennedy—who recently lectured union labor on the importance of restraint in seeking pay increases—may ask a \$1-billion a year rise for federal workers next year.

Administration spokesmen are telling reporters that Kennedy approves a plan to raise Cabinet members to \$35,000 a year and members of Congress to \$32,500—\$10,000 higher than now. The present \$18,500 top for Civil Service positions would be raised to \$30,000, and increases would be provided for some 1.8-million employees in the lower grades.

Official leaks about the plan are being studied by union spokesmen for hints about just what Kennedy means by wage restraint.

### Where tax collectors seek unreported income

Taxpayers plagued by an uneasy conscience are being urged by Mortimer M. Caplin, Commissioner of Internal Revenue, to pay what they think they owe before the new electronic records system brings delinquencies to light.

What Caplin has in mind is an estimated \$24.4-billion of income that tax collectors think is going unreported.

Rough estimates divide the \$24.4-billion this way, by source of income: \$7-billion from businesses; \$6.5-billion from wages and salaries; \$5-billion from farmers; \$2.8-billion from interest; \$900-million from dividends; \$600-million from annuities and pensions. The rest is from rents, capital gains, and other minor sources.

There's no promise of immunity, but voluntary disclosure is likely to end in nothing more severe than a 6% penalty on back taxes.

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# OFF-HOUR EATING:

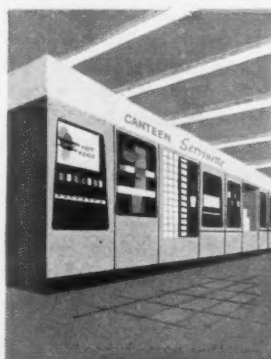
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# The 'I am me' consumer

The shape of '62

With nearly every economic indicator pointing up and with a heartening Christmas season at hand, marketers have happily junked the word reluctant as no longer applying to the consumer. Yet, for all their warranted cheer, they still find their target moving.

The market forecaster has a tougher job than have prophets or angels. They may focus their single vision on heaven or infinity. The marketer, poor fellow, needs double, even triple, vision. With one eye on the past, he must train the other on both the immediate and the distant future. And his errors catch up with him far this side of heaven and infinity.

Yet prophets may make marketing sense. They sometimes detect with their long-range glasses the verities that have a habit of emerging even in the world of selling. If we borrow the prophet's mantle, we may see one of those verities emerging now.

**Changing attitude.** People are learning to act for themselves in the marketplace. As one consulting firm has put it, their attitude toward status is changing. Instead of buying to impress the community, they are buying to express identity, or to impress themselves.

Hair-splitting? Maybe. Yet even a split hair can stir far-reaching eddies in the marketing pond.

The economic indicators point the moral. The relationship of income rise to expenditures appears stable—a 1% gain in income brings roughly a 1% gain in expenditures. Yet the way the money is spent now deviates exasperatingly from the pattern of the 1950s.

**Record expenditures.** Personal consumption expenditures for goods and services for the third quarter of this year set a record of \$340-billion. But outlays for durables—which sparked the boom in the first postwar decade—fell short of those for 1959 and 1960. Non-durables gained a healthy \$2.1-billion, to \$156.2-billion. Services gained even more—up \$2.5-billion from a smaller base of \$139.9-billion.

True, prices of services have risen twice as fast

as prices of goods in the postwar period. Yet even that does not explain why services have averaged a 7% gain a year to bring services back to their 1929 performance of 40% of total outlays. People have developed some immunity to the blandishments of the advertiser; some of that immunity originates in a change from outward-looking to inward-looking goals: recreation, health, education.

**Quest for identity.** This Christmas, merchants repeatedly underscored one of the clearest signs of the identity urge: the demand for the "different" item [BW Dec.2'61,p37]. People seem intent on building up a private image, just as companies have recognized the need for a more identifiable corporate image.

The swelling sale of Christmas cards by the art museums is a small but pointed instance. Also, the Museum of Modern Art in New York reports that more people are taking their framed prints from their walls, replacing them with original works, mostly by young and relatively unknown painters. It no longer sells framed prints at all, while its rental business of originals is booming. The women who commented of the \$2.3-million Rembrandt that it wouldn't fit her color scheme may have lacked an understanding of the criteria for art. But she was voicing a significant criterion of her own.

Soaring sales of "quality" paperbacks—to well over 13-million copies in 1960—surely tell a tale. So far, at least, little prestige attaches to ownership of a \$1.45 volume. As the paperback titles get more and more esoteric, one can only conclude that their publishers are reaching for very small masses indeed through these specialized books.

It's tempting to toy with the thought that one day a library of paperbacks may represent a status symbol. If it does, though, it will be because of the content of the book, not the plush bindings. Besides, adds a book retailer significantly, people buy paperbacks to read. Much of the hard-cover book business winds up as a gift.

**Individuality.** The portents show all over the lot. N.W. Ayer & Son, advertising agency, this fall urged marketers to "think small" for a change—in other words to think in terms of individuals, not masses. In its study of how women look to other women [BW Jan.28'61,p96], Social Research, Inc., concluded that for American women the final fashion authority is not an "austere expert," but each woman's opinion of how she ought to look and behave. It predicted: "Upper-class women may be expected to express themselves in more surprisingly individual ways, both in their dress and in their personal, professional, and community endeavors in years to come."

Some of the reasons are elementary. In fact, says Melanie Kahane, interior designer, the formula has not changed qualitatively, only quantitatively. More people



"Why, that's me. I'll take him"



with more money add up to a market that can say what it has always yearned to say, "I am me." To reach such a point, people first had to reach the full-purse stage that enabled them to say, "I am as good as Mrs. Jones."

**Fragmentation.** The whole notion of the fragmented market hangs on a double growth: of numbers and wealth. Miniature markets are emerging, each one worth catering to.

Yet fragmentation means a state of mind, too: a revolt of a semi-sated market against the mass production that let it sate itself in the first place.

More of everything breeds another psychology. As more youngsters bag the college diploma that was once a secure status symbol, sheer numbers lead to a competitive protest that I am different from the next chap. If I'm not, how can I get the job I want?

**Reaction to insecurity.** People have accepted insecurity as a permanent fact of living—job insecurity, in the face of the population tide and automation; life insecurity in the face of an explosive world. The latest studies of the University of Michigan's Survey Research Center have uncovered a slowly dwindling group that feels certain of good times over "the next five years."

So men retreat to the smaller, safer world of the backyard. In this small "mass unit" one can still indulge one's own ideas of the good life. Here the individual can pit himself against forces too big to handle.

He won't stop buying. Once he accepts the fact that he lives under a shadow, he might as well buy.

**Sense of value.** But he gauges goods differently. You don't have to buy a Cadillac to prove to your neighbors you can afford one. You may, as you prosper, buy a Cadillac because it's a good car. Doubtless plenty of early purchasers of Volkswagens felt delight in proving they were above "status"—thereby setting up the Volkswagen as a status symbol. Yet, as the little German car loses its novelty, it still sells, for the same reason the Cadillac still sells. It does a job.

One can even speculate whether demand for quality—even in fashion—has come to have so strong a lure that it might one day obsolete fashion and design obsolescence. A store such as Abercrombie & Fitch can do 18% of its sales in women's apparel, and quality, not the latest model, is A&F's main appeal. The persistent cry for quality could, in fact, slow down selling. Maybe fewer, costlier purchases will become the order of tomorrow.



The old shibboleths still work strongly, though. You cannot write off status symbols, insists Melanie Kahane. "Coffee table" art books often represent a new market's bow to the new symbols, rather than a personal yearning for the aesthetic.

**Taste and fashion.** The vogue for fashion will probably never die. The herd instinct is too strong. Change is too valuable an asset for the manufacturer—and, besides, people like change. Whether, as "taste" becomes a stronger shibboleth among the masses, it will necessarily improve is a question. Ideally, taste represents an individual ability to judge the fit and aesthetic for an individual expression. But there are fashions in taste, too. To some, today's 18th Century binge appears a retrogression to a self-indulgent age. To interior designer T. H. Robsjohn-Gibbins, it spells a rejection of the Organization Man.

Maybe, as manufacturers gear up for the big new market that will round the population corner soon, they will rush out with junk—any product that sells, Miss Kahane fears. If the pressure for differentness grows, the faddy or junky item very well may find a ready market.

But even the new market will mature knowing more than the raw young families of the mid-1940s. This is the year, retailers say, when they can't sell junk.

**New freedom.** With all the conflicting cross-currents, marketers have their work cut out. But when they take on the stance of the prophet for a moment, they would do well to remember that the germ of identity is catching. It promises to grow into a hardy bug indeed.

The identity-seeking buyer is a hard one to catch. But even big corporations can "think small"—as Detroit has proven in the last couple of years. For the small company, thinking small should just come naturally. There's at least a hint, here, of a growing opportunity for the small concern offering out-of-the-way items. The success of Pinata Party, Inc., with its imports of Peruvian handicrafts [BW Dec. 2'61, p80] is just one instance.

Ironically, of course, a small concern that catches the public fancy may well wind up under the umbrella of the corporation. This only further emphasizes the point that big companies increasingly realize the value of the "special" market.

The creative marketer, big or small, enjoys one compensation for all the difficulties the identity seekers create. He will find a new freedom, if he can combat himself with taking the market a piece at a time.



## How the companies rank

[Sales in billions of cigarettes]

Company	All Cigarettes		Regular Size		King Size		Filter Tip		Menthol	
	1961	1960	1961	1960	1961	1960	1961	1960	1961	1960
R. J. Reynolds Tobacco Co. ....	162.5	150.6	66.5	66.5	—	—	55.0	49.6	41.0	34.5
American Tobacco Co. ....	125.2	122.7	40.5	41.5	73.8	71.1	10.8	9.9	.1	.2
Liggett & Myers Tobacco Co. ....	50.7	53.0	12.9	14.4	12.6	12.6	24.2	25.0	1.0	1.0
P. Lorillard Co. ....	49.4	49.8	1.9	2.0	1.3	1.3	38.6	40.5	7.6	6.0
Brown & Williamson Tobacco Corp. ....	48.4	48.8	—	—	3.7	3.6	27.8	29.3	16.9	15.9
Philip Morris Inc. ....	46.8	44.2	4.7	5.1	4.8	4.4	34.8	32.2	2.5	2.5
All Others .....	2.0	1.0	.5	.3	.4	.3	1.1	.4	—	—
<b>Total .....</b>	<b>485.0</b>	<b>470.1</b>	<b>127.0</b>	<b>129.8</b>	<b>96.6</b>	<b>93.3</b>	<b>192.3</b>	<b>186.9</b>	<b>69.1</b>	<b>60.1</b>

Data: Business Week

1960 figures revised

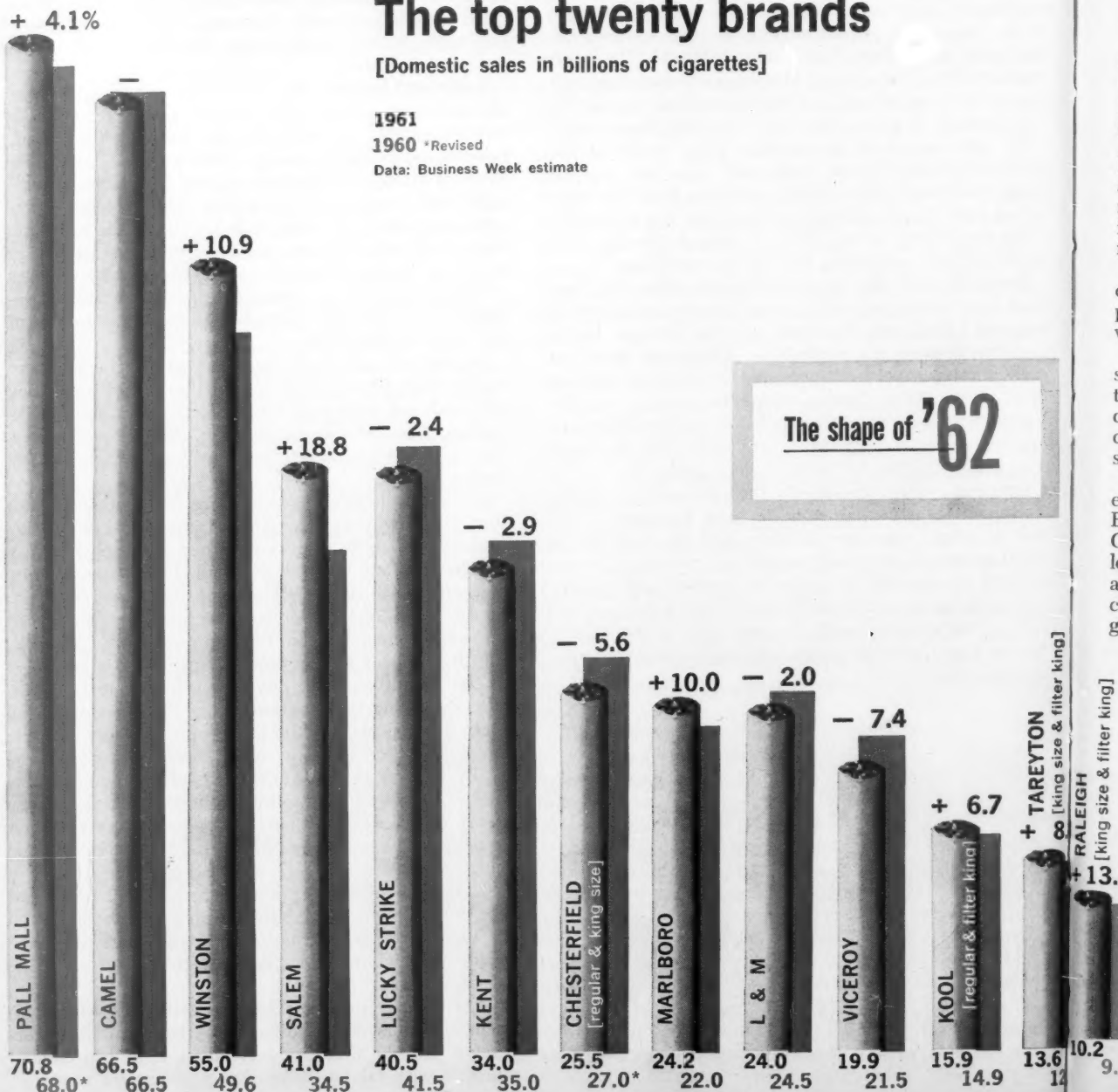
## The top twenty brands

[Domestic sales in billions of cigarettes]

1961

1960 \*Revised

Data: Business Week estimate



The shape of '62

# The smokers are still at it

Domestic sales of cigarettes increase again and will top the half-trillion mark next year if they can maintain the same pace. Pall Mall was the brand leader, for third time

**Smokers** have done it again. Domestic sales of cigarettes for 1961 are setting a new record. And if they can hold the same rate of gain in 1962, domestic sales will pass the half-trillion mark, with total output including exports topping that by something like another 50-billion.

The rise of domestic sales is one more chapter in a continuing story—the natural consequence of growing population. There was nothing new either in the individual leader for 1961; American Tobacco Co.'s Pall Mall was on top for the third year in a row. Apart from that, there was a milling around among the best selling brands that seemed to indicate important trends in the industry:

- Menthols are still on the increase, and their popularity has pushed Salem into fourth place; it was sixth last year.

- Brand loyalty is under more severe strain than ever before. But there is some evidence that loyalty can be transferred from one type of cigarette to another type with the same name.

- The cancer scare seems to be easing off, judging by over-all sales. Even the unfiltered, regular-size Camels, bolstered by strong brand loyalty, have held second place overall, in the face of the continued decline of all other brands in their category ever since the cigarettes-cause-

cancer furor that shook the industry a few years ago.

According to estimates made for Business Week by industry expert Walter E. Knight, American smokers this year are pushing about \$6,970-million across the counter in exchange for some 485-billion cigarettes. Manufacturers' net sales for all tobacco products amounted to \$5,521-million, according to the U.S. Agriculture Dept. That means \$1.9-billion in taxes dropped into the coffers of the U.S. government, with another \$1-billion going to the 47 states that tax the products. Each total represents an all-time high.

**Success story.** R. J. Reynolds Tobacco Co. had a notable year; with only a three-brand team, it took second, third, and fourth positions. With its regular (Camel), plain filter (Winston), and menthol filter (Salem), Reynolds accounted for over a third of all domestic cigarette sales in 1961.

Menthols, as a type, were the biggest ground-gainers. Led by Salem, they climbed 16.2% over last year. Newport, another menthol, went up 29.1%, the largest increase of any brand in the top 20.

Brand loyalties are not so strong as they used to be, with Pall Mall and Camels the exceptions to the rule. Smokers have been swinging from the "old standby" brands to

the new types. However, if there is the old brand name in the new type, it has a tendency to hold the smokers' loyalty. Four manufacturers have entries in different groups under one brand name. In most instances, regulars fell off, plain kings held steady, and filters and menthols increased.

**Gains.** The success of the filters seems to have leveled off. They accounted for 53% of the market—a gain of less than 2% over the previous year. Winston again led the pack, with an increase of nearly 11% over last year. The 1961 sales estimates indicate a weakness in the high-filtration style. Regular filters gained an estimated 7.2-billion (5.1%), menthols gained 9.1-billion (16.2%), and high-filtration brands declined 1.8-billion (3.9%). Only Parliament, of the high-filtration style filters, improved on its 1960 performance.

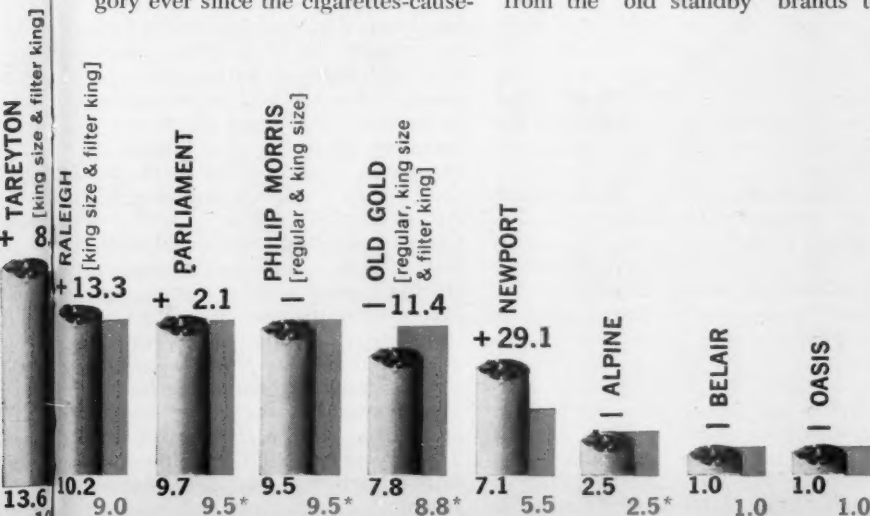
This year saw the advent of Lorillard's super-king, a 90 mm. (regular size is 70 mm. and the standard king size is 85 mm.) "imperial" size under the brand name of York. This model was test-marketed in the East and Midwest, stressing that the added length would in itself serve as a filter—the theme Pall Mall has traded on for years.

Of the two new brands introduced a year ago, Kentucky Kings and Belair, Kentucky Kings fell off 50% while Belair, a menthol filter, matched its 1960 sales of 1-billion.

**Exports.** Shipments to foreign markets are up in 1961. Final totals are expected to reach 22.3-billion, representing a 10% gain over 1960. Additional shipments to possessions and overseas military forces of 17.7-billion will boost all shipments to 40-billion and push factory output to an estimated 525-billion.

For next year, increased use of vending machines in marketing cigarettes seems to be in the cards, following the introduction in 1961 of a machine that dispenses cartons and makes change.

Continued breeding out of nicotine and tars is expected as lab investigations into health and smoking continues. **End**





# Philco's supermarket deal gets Ford O.K.—and a new push

Some dealer groups storm, but Philco—backed by its new owner, Ford—expands plan for supermarket appliance sales with regular supermarket purchases as part payment

**Encouraged** by sales success and the blessings of their new management, Philco Corp. officials this week were touring the country lining up additional participants in a controversial plan for selling major home appliances in supermarkets.

The core of the plan is that a proportion of the price of purchases in the supermarket is applied toward the monthly installment on the appliance—and this has some old-line merchandisers shaking their heads in doubt.

But Philco has been testing it in several areas [*BW* Nov.25'61,p88] for more than a month, and it has boosted sales. So now, with the full accord of its new owner—Ford Motor Co.—the appliance company is hastening to get supermarket outlets for all its dealers.

**Setup.** The program is the creation of Richard E. Scott, of Sterling, Ill., who sold it to Philco for \$28,000, plus royalties. Under it, a customer selects an appliance (or TV, radio, or hi-fi) from a display in the supermarket and makes a credit application to the dealer.

If the credit is approved, the customer agrees to pay \$10 a month until the purchase is paid up—but a proportion, roughly 5.5%, of the month's buying in the supermarket as shown by cash register tapes is credited toward the \$10 installment. If the month's tapes amount to \$182, that would take care of the entire monthly payment. There is no down-payment, so Scott and Philco call the plan "Instant Dividend"—the customer gets an immediate return for shopping in that particular supermarket.

That is supposed to keep the housewife a steady customer of the supermarket that has the "ID Plan." If it does, and especially if she increases her purchases of things such as toiletries that can be bought elsewhere, the super's 5.5% discount might be more than paid for. Just in case it isn't, Philco pays part of the discount on a sliding scale.

**Hitch?** It seems like a happy

scheme for both Philco and its dealers—who can well use more sales—as well as for the supermarkets involved and their customers. But there could be a big hitch in it. That's why some dealers and manufacturers are up in arms over the idea.

After a while, the customer might get restive at missing food promotions at other stores; or she might move away. People outside Philco wonder if, after the first flush of easy sales, there is going to be enough business to justify the enormous display space required by big appliances. They point out that supermarkets calculate the return from each square inch of shelf space, and wonder if the stores are going to ask the dealer to take a smaller margin of profit—or, worse yet, ask Philco to ship direct to the supermarkets and skip the dealer.

**Ford backing.** The ID plan began before Ford acquired Philco; Ford's strenuous efforts to improve and strengthen its automotive dealer setup brought up the question of Ford's attitude toward an operation that seemingly tends to weaken dealer loyalty.

Last week Ford officially took over Philco. And the new president, Charles E. Beck [*BW* Dec.16'61,p63]—straight out of Ford and thoroughly indoctrinated with its philosophies—immediately gave his support to ID. A Ford official called the plan "only an extension of the dealer's show room into the supermarket."

**Expansion.** So this week, under new management, Philco representatives fanned out across the nation to add more dealers and supermarkets to the approximately 200 already participating in ID. Two California appliance trade associations have come out for the plan, and in Indiana and elsewhere distributors of non-Philco appliances have worked up comparable plans.

No other major appliance manufacturer has yet followed Philco's lead. The National Appliance &

Radio-TV Dealers Assn. is quite bitter; its officials met early this month to organize opposition to the plan. But they found a goodly number of dealers attended hoping to hear all the details of ID so they could organize a comparable program.

Already, though, trade reports from Pittsburgh tell of faltering purchases under tape plans. What has happened, apparently, is that nearly every supermarket chain in the area has such a plan, and that most people ready to buy a new appliance now have signed up.

## Marketing briefs

**Rosser Reeves**, chairman of Ted Bates & Co. advertising agency and controversial apostle of hard-hitting product advertising, has lost his title of chief executive officer of the agency. Theodore L. Bates, founder and honorary chairman, has resumed administrative control, and Reeves will confine himself to creative functions.

**The Supreme Court** is going to decide if a corporate officer can be held responsible as an individual for criminal violations of the Sherman antitrust act. The court has agreed to review the case of a dairy executive accused of price-fixing. A lower court held that he could not be prosecuted under the Sherman Act, but that the Clayton Act—with much lesser penalties—does hold an officer personally accountable for illegal acts, even when required by his company.

**Jess Ritchie** has ended his war against Uncle Sam. The Oakland (Calif.) manufacturer of AD-X2 battery additive, pleading lack of funds, has dropped his suit against the U. S. government for \$2,370,000 in damages and expenses arising from his efforts to keep AD-X2 on the market in the face of charges of misrepresentation made by the Bureau of Standards, the Post Office Dept., and the Federal Trade Commission [*BW* Nov.26'55,p150]. The Court of Claims permitted withdrawal of the suit "with prejudice"—meaning Ritchie cannot reinstate it. At one time early in the campaign, Ritchie's charges of discrimination caused suspension of the then-director of the Bureau of Standards, but he was later restored to duty. The battery additive is still on the market, and a few years ago FTC dropped its false-advertising complaint against Ritchie.

# Clouds on Canada's horizon

The way is all upward in 1962, but economists have some qualms about what happens after that. A lot depends on effects of the Common Market and on U. S. attitude

Just how cheerful Canadians are about their economic future depends on whether they are near-sighted or far-sighted.

Canada's near-term prospects are bright. This year, Canada has been in a state of fitful recovery from the 1960 recession. In 1962, the contours of the Canadian advance will become solid (chart). Canadian economists are almost unanimous in thinking that their country's gross national product will reach \$39.5-billion in 1962, up about 7% from 1961's expected figure of \$36.8-billion.

This 7% gain in GNP—which will almost match that of the U.S.—means that Canada will score its first really big economic advance since 1956, the last year of its great post-war investment boom.

**Long-range concern.** Despite this optimistic outlook for 1962, Canadians are deeply worried about their long-term economic future. To be sure of sustained economic growth, Canada needs a lot more in capital spending. As yet there are no signs that Canada's current upswing will lead to more than modest gains in investment.

Canada's long-term future is also clouded by the possibility that its foreign trade will be hurt when and if Britain joins the Common Market [BW Dec.9'61,p36], and by uncertainties about the future of the Canadian dollar. Sophisticated opinion in Canada—both inside and outside the government—now holds that the Canadian dollar will eventually drop below its current value of a little under 96¢ U.S.

But none of these problems will come to a head next year. A strong performance for Canada in 1962 is assured by rapid gains in consumer spending, expansionary government policies, and a buoyant outlook for exports.

**Consumer spending.** Like his U.S. counterpart, the Canadian consumer has been playing it cagey during most of the past year. Meanwhile, his ability to increase his purchases, particularly of durable goods, has

been increasing. Savings have been mounting, installment debt fell for most of the year, and personal income has been gaining.

To Canadian business analysts, this means that the Canadian consumer is set for a spree. Estimates vary as to how much consumption will increase during the next year, but none is less than about 6%.

The thing that will set the spree off is a sharp drop in Canada's unemployment rate. After three years

when Canada's unemployment rate exceeded that of the U.S., it dropped sharply last November. On a seasonally adjusted basis, it fell to the U.S. level of 6.1%. Canadian economists expect it to fall to about 5% by the final quarter of next year.

While this will not be low by post-war standards, it does mean that unemployment will be moving in the right direction to remove an important psychological inhibition on consumer spending.

**Stimulus.** Lying behind Canada's improved economic outlook for 1962 are the expansionary policies adopted by the Progressive Conservative government of Prime Minister John G. Diefenbaker last June, in the wake of the forced resignation of austere, nationalistic James E. Coyne as governor of the Bank of Canada [BW Jul.22'61,p27].

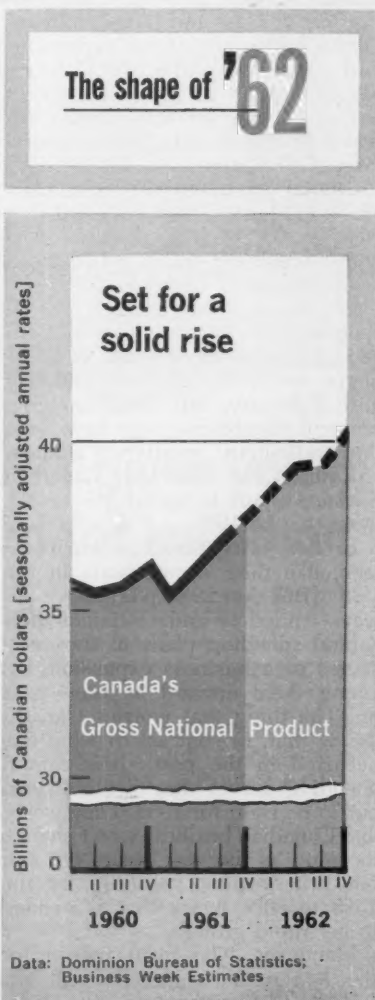
With Coyne removed from a position in which he was able to obstruct expansionist policies, the Canadian government moved quickly to administer a strong dose of monetary and fiscal medicine to the Canadian economy. That medicine is now starting to take effect.

Over the next year, Canadian purchasing power will be shored up by massive deficits in the Canadian budget. During the current fiscal year, which ends on Mar. 31, the budget will be about \$1-billion in the red—roughly equivalent to a \$14-billion deficit in the U.S.

**Spending on rise.** This deficit will be somewhat smaller in fiscal '63, as Canada's tax receipts rise in the wake of business improvement. But it will still be large because government spending will be growing.

On the basis of present plans, government spending will rise by about 5% next year. But most Canadian economists expect it to go still higher. Next year will be an election year in Canada, traditionally a time when the party in power puts into effect a "sunshine budget," calculated to make an immediate impact on the pocketbooks of a maximum number of voters.

In the parliamentary session next



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month, the Diefenbaker government seems certain to increase Canada's old-age pensions and may also pass some other welfare measures.

**Trade flow.** Canadian exports are certain to soar in 1962, partly as the result of the depreciation of the Canadian dollar.

The cheapness of the Canadian dollar has already had measurable effects on export receipts. Most manufacturing companies that were asked about the effects of exchange devaluation in a survey that was released this week by the Canadian Office of the National Industrial Conference Board think their foreign receipts have already benefited. They foresee even bigger gains next year, since it takes time for trade patterns to adjust to a new exchange level.

Even without the stimulus of exchange devaluation, Canadian exports would have risen in 1962. Almost 60% of Canada's exports go to the U.S. Accordingly, the rapid upswing in the U.S. will lead to a rapid rise in Canada's total sales. Piled on top of Canada's growing trade with Western Europe and Japan and continued high agricultural exports to Red China and Cuba, the U.S. recovery means that Canadian exports of goods and services should increase by 5% over the 1961 expected level of \$7.5-billion.

**Capital spending.** For Canada's long-term future, the key question is whether the cyclical upswing now under way will touch off a fresh wave of capital spending.

Results of the annual capital spending survey carried out by Canada's Department of Trade & Commerce won't be available publicly until February. But Canadian government economists who have seen the preliminary results say that it will show that next year Canadian business plans to spend 3% to 5% more than in 1961.

In the past, Canadian businessmen, like their counterparts in the U.S. [BW Apr. 29 '61, p32], have always tended to underestimate their capital spending plans in the early stages of a business expansion, revising them upward as time goes on. The thing that worries Canadians is that, in contrast to what has occurred in the past, their capital spending survey may actually turn out to be right for 1962. They worry that Canadian business won't change its mind as the year wears on, and boost its capital spending by the 15% to 20% figure that is needed to get rapid growth.

**Hangover.** The main reason for this fear is that Canada is still suffering a hangover from the over-

building of capacity during the great investment boom of the early '50s. Slow growth since 1957 has left Canada with a high margin of excess capacity—higher than in the U.S. in the opinion of Toronto economic consultant W. A. Beckett. Excess capacity severely limits profitable investment opportunities in Canada.

This limitation strikes particularly hard at Canada this year. Canada depends heavily on foreign investment for its economic growth. And, this year, there's a strong chance that foreign investors will shy away from making heavy commitments in Canada:

▪ In seeking to attract the investment funds of large international companies, Canada competes with the Common Market countries. Uncertainty about how Canada will fit into a world in which Britain is a member of the Common Market could induce these companies to bet on the sure thing, the Common Market, while adopting a wait-and-see attitude to Canada.

▪ The nationalist mood that still prevails in Canada has made foreign companies somewhat leery. Last December, Canada increased taxes on foreign-owned companies. The effect was to sharply step up the dividend payments by U.S. subsidiaries and branches to the parent company. Foreign companies are retaining less of their earnings in Canada to finance new projects.

▪ Finally, the investment outlook in Canada is uncertain because of fears that the exchange value of the Canadian dollar will continue to sink.

**More dollar slump.** Because they feel that the strength of the Canadian dollar is mainly determined by the investment demand for Canadian funds, Canadian money market experts think Canada's limited investment attractiveness will lead to a further fall in the Canadian dollar.

Speculation in some Toronto financial circles is that the Canadian dollar will eventually drop to about 90¢ U.S. and will be pegged at that rate by the Canadian authorities.

According to these Toronto experts, such a drop in the Canadian dollar would be welcomed by Ottawa, because it would strengthen the demand for Canadian exports, thereby exerting a stimulative effect on the Canadian economy.

But not all Canadians agree that further depreciation of their dollar would be wholly beneficial. They feel that if exchange depreciation is excessive, its benefits tend to be eaten up by inflation. They think Canada will have to find some other way to spur its growth rate. **End**



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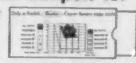
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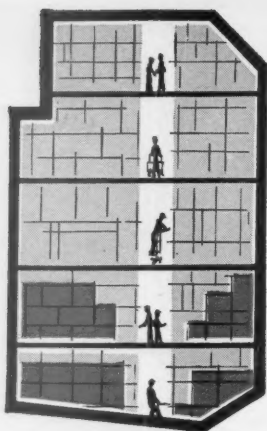
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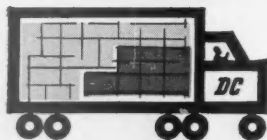
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## In new products

**BW**

### Simple exhaust silencer aims to put the auto muffler out of business

A compact exhaust silencer that could put the bulky automobile muffler out of business was introduced in New York last week by Arvin Industries, Inc., a long-time designer and supplier of auto exhaust systems.

Arvin claims that the conventional muffler—stuffed with resonators, baffles, sound absorbent materials, and other noise suppressors—traps acids and other corrosives from the engine exhaust, which shorten its life. The new "ArviNode" system uses finely tuned resonators the size of frankfurters. These are attached to the inside wall of the exhaust pipe, leaving enough room for the corrosive materials to pass on through the pipe, instead of accumulating. When sound waves from the engine and exhaust hit the resonators, the resonators vibrate, and in turn create sound waves that counteract and reduce the original noise or pressure.

Arvin says the ArviNode will be competitive in price with conventional mufflers and more efficient. As the temperature of the gas column changes in the exhaust pipe, the sound frequencies also change. Arvin claims that its resonators, directly in the flow of the gas column, can monitor these changes more closely than resonators in the muffler. The new system would also give auto makers more flexibility in design, and offer them space and weight savings.

Arvin believes that acceptance of the device would probably come gradually, starting with one model and spreading slowly to others. The earliest application the company sees is the 1964 model year. Arvin hopes to crack the replacement as well as the new car market.

This week, other muffler makers and the auto companies showed little excitement over the Arvin development. Actually, several muffler manufacturers—including two of the leaders, A P Parts Corp. and Walker Mfg. Co.—have similar resonator devices in the lab.

In Detroit, a Chrysler official said that research in the afterburner field—aimed at clearing smog-causing hydrocarbons out of the exhaust—was moving toward incorporation of the muffler into the afterburner, in line with what Arvin is doing. Ford and General Motors will say only that they're studying the ArviNode system.

### Driverless tractor to handle hot slag with remote control operation

A driverless, 83,000-lb. crawler tractor will soon be churning around a Midwest steel mill, scooping white-hot slag out of the mill's cavernous open hearths. The new tractor, developed by Allis-Chalmers Mfg. Co., operates on radio signals from a small, transistorized, battery-powered panel strapped to the chest of an operator. He can be any distance from the tractor to guide it—as long as he can see it.

The obvious advantage of remote controls, of course, is greater safety for the operator. Allis-Chalmers claims also that a skilled operator standing at a distance can put the shovel through its paces with greater precision than he could from the driver's seat.

The slag scooping job will be the tractor's first commercial application, but Allis-Chalmers also sees a market for its "Spook" in military and civil defense, the handling of radioactive materials, fire fighting, and hazardous construction or demolition jobs or other chores where a tractor operator might be in danger. The basic tractor runs \$60,000; Allis-Chalmers won't make an estimate on the controls.

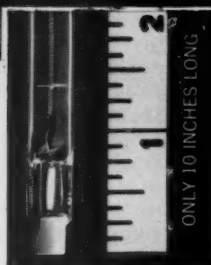
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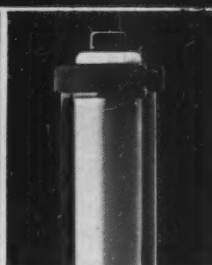
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**BONUS:** General Electric engineers sealed the reflector inside this Reflector Lamp—dirt can't enter; spotlighting costs less, maintenance is far easier.



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**BONUS:** Another General Electric development—the All-Weather fluorescent gives good light even installed in refrigerated areas or outdoors year-round.



# Leave how much to Uncle Sam?

**Basic research is getting ever more costly and ever more dominated by the government. Corporate research chiefs are wondering if they shouldn't cut back on it**

**Two almost diametrically** opposite trends will do much to shape the pattern of research in the U.S. next year.

The government will continue to increase—by an estimated \$2.1-billion—its already-tremendous investment in research and development. Most of this increase will be directed specifically at programs connected with the country's stepped-up space and defense programs.

On the other hand, an increasing number of privately owned companies will be reconsidering their research budgets next year with quite another purpose in mind. There's a noticeable and growing feeling among executives that there may be a real and measurable limit to the amount of corporate funds that they should be investing in company-sponsored research.

**Let Uncle Sam do it.** Executives differ somewhat in their specific reasons for believing that such a limit exists. But generally they indicate that the government's increasing interest in research—and all that this implies—is a major factor in their self-questioning second thoughts about industrial research.

The patent situation (especially for those working partially under government grants) is a matter of increasing concern [BW Oct. 21 '61, p115]. Corporate research directors are also increasingly distressed about what they see as the "insupportably costly" business of continuing to do research in some of the more swiftly moving physical sciences.

Such is the cost of keeping up with the state of the art in some scientific fields today that it's almost axiomatic that a company must deal itself out of competition, many research directors are saying. Product development in such fields is still a possibility, but it's questionable how much of its own money a company can profitably invest in some basic or fundamental research areas.

**Yet to come.** In toto, the U.S. bill for R&D in 1962 will probably approach \$16.5-billion. That's an 18% jump over spending in 1960, the last

year for which there are firm figures. It is more than five times the \$3-billion that industries, government, and universities spent in 1950.

But even \$16.5-billion is only a sample of what's to come, experts are saying. By the end of the decade, barring war or some other break in the continuing cold war, the U.S. could be spending upward of \$25-billion a year for R&D.

Responsibility for a major share of this increase, of course, goes to the civilian space effort—the largest single research program the U.S. has ever undertaken [BW Aug. 19 '61, p74]. Before the first U.S. astronaut ever makes contact with the moon's surface, NASA's costs will total close to \$20-billion.

But the National Aeronautics & Space Administration's man-in-space program is only a part of the U.S.

rent plans are fulfilled, the business of research, in dollars and persons employed, will push even higher into the top echelons of industry.

**Raising questions.** What will this mean to U.S. industry as a whole? How does it affect the way individual companies, in individual industries, should be planning their own research budgets? And what kind of guidelines does it indicate, relative to basic vs. development research funding?

Research directors admit they don't know the answers yet. But one thing seems clear. Whereas the U.S. government will be supporting close to two-thirds of all research in the U.S. in fiscal '62, it will be expecting industry to do, in its own labs, almost three-quarters of the actual work.

For some industries such as the materials and metals industries, which can directly apply the fruits of government-sponsored research, this is a bonanza. But for others who can put their findings to less immediate use, it creates a real predicament.

Along with government funds to push research in a particular field, a company invariably gets a number of intangible assets. It gets to build up a staff of highly paid, well-versed researchers. It gets equipment—sometimes equipment that exists nowhere else in the Free World—with which to press its studies. It gets to set up a broad scientific background, and it gains in reputation—in both the business and the scientific communities.

But in putting top scientific and management talent into government research work, a company inevitably loses other things, too. It can't plan its own development programs with confidence that they won't be sidetracked to make way for more pressing government problems. It can't plan big new research facilities with any kind of continuity. And it gives away, in a very real sense, some control over its own future.

**Where it's going.** The torrent of government dollars is today flowing

## The shape of '62

government's total research plans. For example:

- Defense Dept.'s R&D spending for fiscal 1962 (ending next June 30) will total \$5.2-billion. In fiscal 1963, this sum will probably rise to \$5.5-billion.

- Bureau of Standards' budget, now at \$23.5-million, will probably continue to spiral slowly—moving to around \$28-million next year.

- National Institutes of Health budget, now at \$434-million, because of built-in increases will also continue to jump—up to \$475-million in fiscal 1963.

**Where it ranks.** If research were considered an industry, it would rank among the top dozen manufacturing industries in the U.S. today. Already its employment (at 350,000) is close to three-fifths that of the automobile industry. By 1970, if cur-

# The government needs basic research to support its many advanced projects ...

Story on page 52

into research in almost all the physical and biological sciences. Ultra-high temperatures, very low temperatures (cryogenics), exotic materials (both metallic and non-metallic), direct energy conversion systems, bionics—all these are fields in which the flood of government money has already started to pay off in new ideas and new products.

But this raises a question for executives who are charged with corporate research planning: Considering that the government seems determined to push research in so many directions at once, wouldn't it be more prudent for a company to streamline its own efforts?

At first glance, this would seem to be running counter to the main course of research progress. But the reasoning runs something like this:

The government needs basic research to support its many advanced projects. Universities can't be employed to do all the necessary basic studies the government needs. Therefore, it stands to reason that industry should be called to do more and more of this kind of work. From the look of things, it shouldn't be long before everyone has as much government-sponsored work as he wants—or can absorb.

**Which way will it go?** What then? Industry admits it doesn't know. But a good guess is that the government will first try to increase its use of the nonprofit research labs [BW Dec. 16'61, p65]. If that fails, it may then be forced to add to its own research facilities.

Industry knows full well that it can't compete—either in dollars or in personnel—if the U.S. government decides its only course is to set up its own tremendous research stronghold. Therefore, why shouldn't companies, the reasoning goes, start now to adjust to the growth of government control of research?

Why not start setting up a vast company facility for reviewing and collating government research developments instead of doing the basic research yourself? Why not spend real money now in more emphasis on product development—for findings that can be protected by patents and put into products with direct

monetary rewards? These are questions that corporate research management is asking itself.

**Tip-offs.** Two somewhat-related proposals, due to come up for Congressional consideration early next year, will be watched closely as bellwethers of industrial research prospects in the decade ahead.

First is a proposal requiring government ownership and free licensing of all patents growing out of research done under government contract. Second is a proposal calling for complete revision of drug patent and production laws.

Supporters of the free licensing proposal argue that since Uncle Sam is paying for R&D, he should have sole control over all discoveries made thereby. They back this up with the belief that the public would benefit from government-assigned patents, since all companies and all persons would have equal access to them.

**Industry reaction.** Industry's general reaction, however, is that if such a law were ever enacted, it would destroy a company's basic incentive for taking on government research contracts.

"Companies, generally, would want no part of a government R&D program," states one research director. "There's no question that the government, since it's paying for the work, should have royalty-free non-exclusive licensing rights to any discoveries made. But if the company doing the work doesn't get commercial rights and title, there's no commercial incentive to doing the work in the first place."

The drug industry's reaction to a suggestion that its patent protection coverage be reduced from 17 to 3 years is similarly dour.

"Without patent protection over a reasonably long period of time," says one manufacturer, "our research activities would have to be collapsed—virtually overnight. Research is certainly the pass-key to progress. . . . But it's costly . . . and becoming increasingly more so. To support our kind of research, we must be assured that our competitors won't be allowed to cash in on new products until we have paid for the work that created them. We must pay for our failures as well as our successes." **End**



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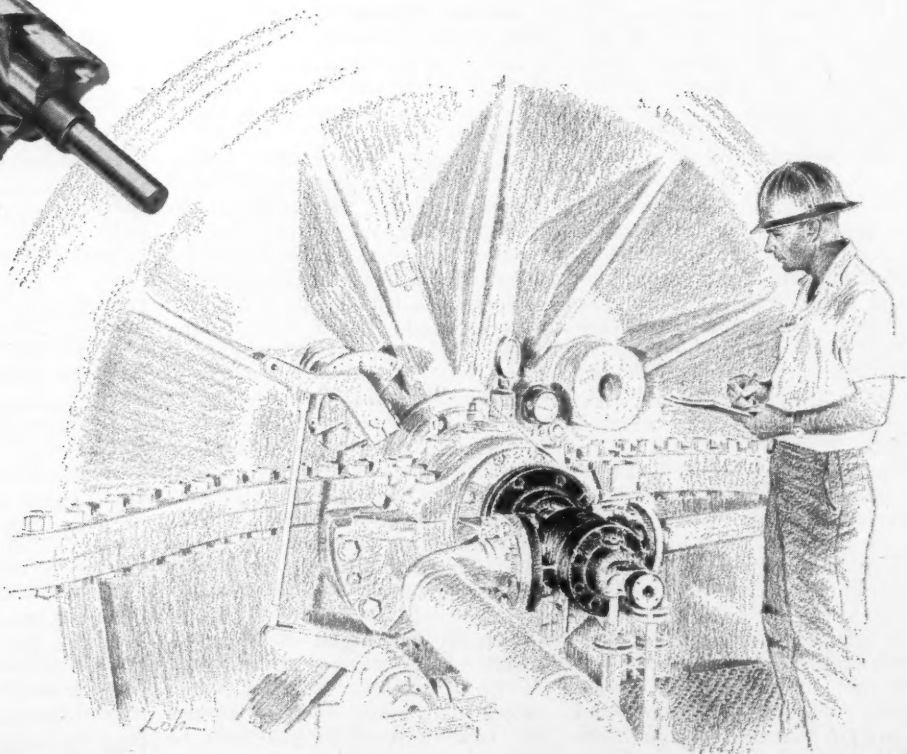
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## Large-scale tests of measles vaccine started by Public Health Service

The Public Health Service has started field trials to develop a better vaccine against the most dangerous common childhood disease—measles [BW May 25, p 55]. Dr. Luther L. Terry, the surgeon general, points out that regular (as opposed to German) measles accounts for about 500 deaths a year in the U.S.; usually resulting from measles encephalitis, which now occurs as often as once in every 400 cases.

The field trials are under way in five widely separated sections of the country—DeKalb County, Ga.; Cincinnati, Ohio; Seattle, Wash.; Rochester and Buffalo, N.Y. They are the first large-scale attempt to administer a killed virus measles vaccine in combination with a live virus vaccine.

Previous field trials have used live vaccine alone or in combination with gamma globulin. Live virus alone frequently produced uncomfortable side effects, including fever and rash. Doctors have rumored that these effects can be reduced significantly when gamma globulin is administered with live measles vaccine. But Dr. Terry explains that supplies of gamma globulin blood derivative may not be adequate for mass vaccination.

In the current study, test subjects will be divided into three groups. The first group will receive three shots of killed virus vaccine. The second will get two shots of killed vaccine and one shot of live. The third group will be a control group receiving dummy injections.

## Nuclear-powered navigation buoy gets tryout off Baltimore

The Atomic Energy Commission and the U.S. Coast Guard have started testing the world's first nuclear-powered navigation buoy in Curtis Bay, 5 mi. south of Baltimore, Md.

The tests will determine the effectiveness and reliability of the small 10-watt SNAP-7A (Systems for Nuclear Auxiliary Power) power unit developed by Martin Marietta Corp. Fuel for the SNAP-7A is strontium-90; estimated life is about 10 years. This is the latest in a series of compact auxiliary power systems under development for the U.S. government [BW Jan. 30 '60, p103].

If the SNAP-7A buoy lives up to expectations, the Coast Guard plans large-scale use of them, particularly in remote areas. Battery-powered buoys now in use must be inspected every couple of months; a nuclear-powered buoy will require only semiannual inspection.

Testing of the new buoy will take several months. Initially, it will operate about 50 yd. offshore in the calm waters of Arundel Cove. Later, the buoy will be moved out into the open waters of Chesapeake Bay to test wave action on the system.

Another version of SNAP-7, the SNAP-7C generator, soon will be installed in an automatic, unmanned Navy weather station in Antarctica. The same type of gener-

ator has been successfully operating a U.S.-Canadian automatic weather station on an island within the Arctic Circle since last August.

## Boeing wins \$300-million-plus contract for booster on C-4 moon rocket

The Boeing Co., assisted by North American Aviation's Rocketdyne Div., has been selected by the National Aeronautics & Space Administration to develop and build the super space booster, the S-1-B. The S-1-B is to serve as the first stage for the C-4 version of the Saturn rocket—the system that may be used to land a trio of astronauts on the moon sometime around 1967 using the orbital rendezvous technique.

The S-1-B will consist of either four or five 1.5-million-lb.-thrust F-1 engines now under development by Rocketdyne for a total of 6-million or 7.5-million lb. of thrust. Coupled with two additional upper stages to form the C-4 rocket, the S-1-B will be capable of sending 100 tons into earth orbit or 40 tons to the moon.

Boeing won the "more than \$300-million" contract in competition with General Dynamics, Aerojet-General Corp., Space Technology Laboratories, and Martin Marietta Corp. It will be responsible for developing, constructing, and testing 24 flight model S-1-B boosters, plus another three or four for ground tests. First flight testing is scheduled for 1964-65.

Work on the booster will be handled by Boeing at NASA's Michoud (La.) plant and its own plants at Seattle and Wichita. Peak employment on the S-1-B is expected to run around 5,000.

## New office will plan and administer U. S. foreign policy in science

In recognition of the increasingly important role that science is playing in international politics, the National Science Foundation has set up an Office of International Science Activities. One of OISA's prime functions will be to plan, develop, and administer U.S. foreign policy in science and science education. It will operate either at the request of or in cooperation with the State Dept.

The new office will be headed by Dr. Arthur Roe, former chief of the Science Foundation's Planning group for Educational & International Activities.

In addition to its responsibilities to U.S. foreign policy, OISA will:

- Provide staff and policy guidance on international aspects of research support, science education, exchange of scientific information, and such matters.

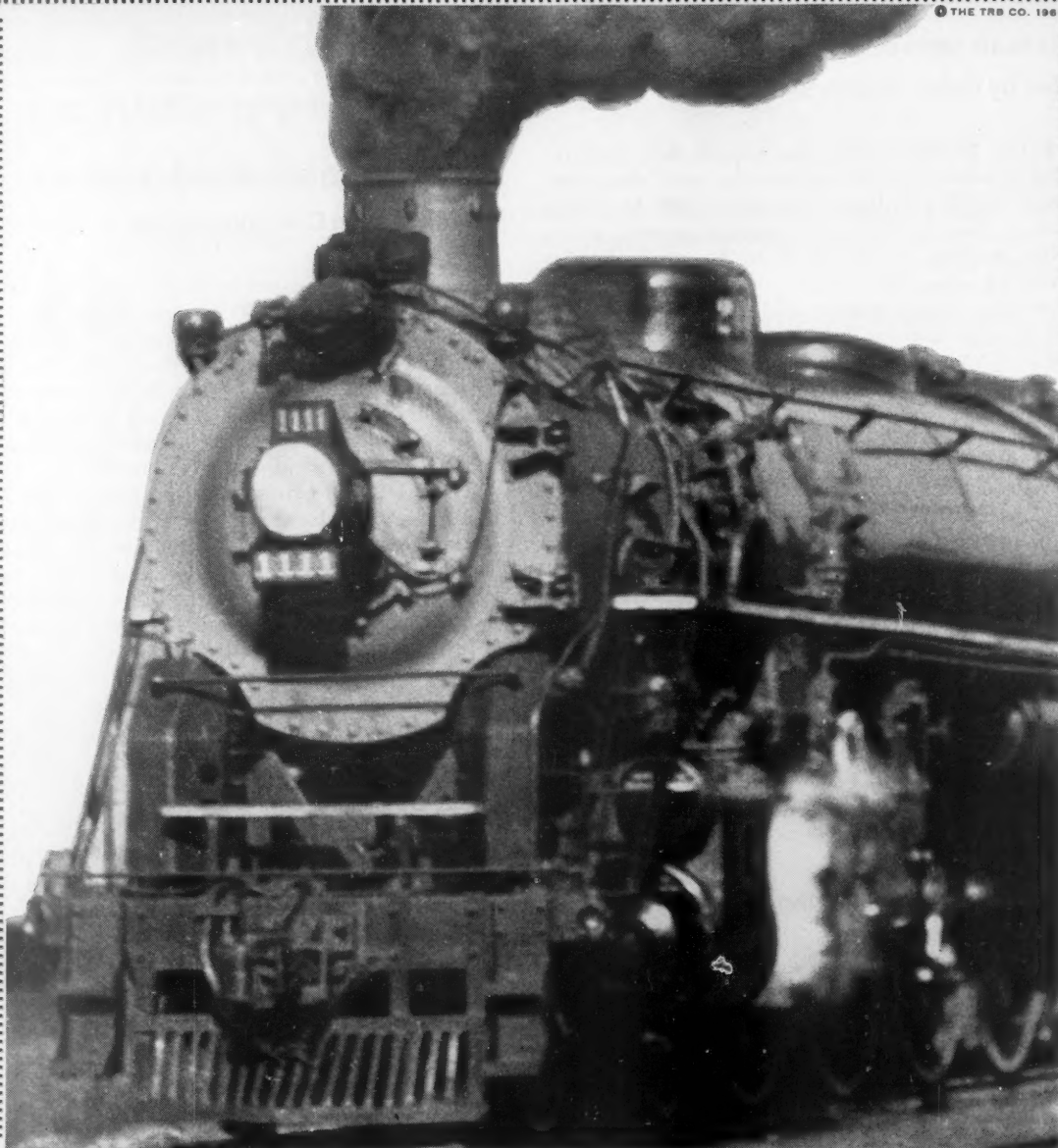
- Coordinate the foundation's activities of international scope or significance.

- Develop experimental programs in international science cooperation, which will be sponsored by American, foreign, and international groups and governments.

- Administer Science Foundation staffs in Tokyo and Paris.



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# Fed's credit plans

Interest rates are headed up, but Fed is unlikely to slam on the credit brakes

This year in the money markets will go down as the year of the great experiment—the attempt by the Federal Reserve to provide easy money without letting it get too cheap.

The experiment was in sharp contrast to the policy followed by the Fed in previous recession-recovery periods (charts). And, by and large, it was successful. Now, with the economy expanding, the prospect is for higher interest rates. But the money managers think they can continue to make credit available, thus avoiding any credit squeeze.

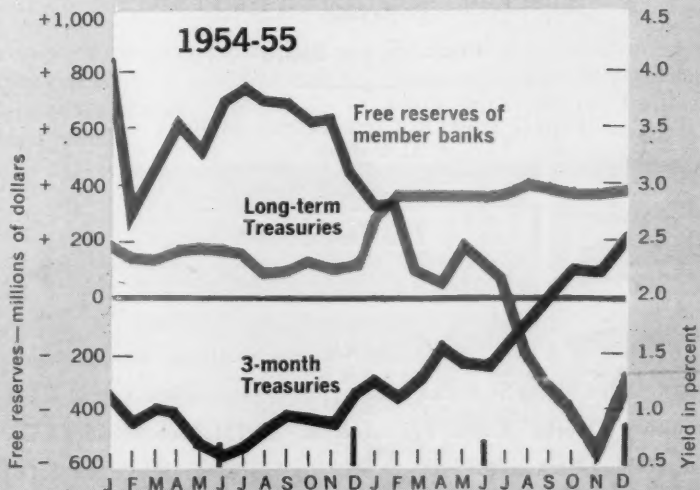
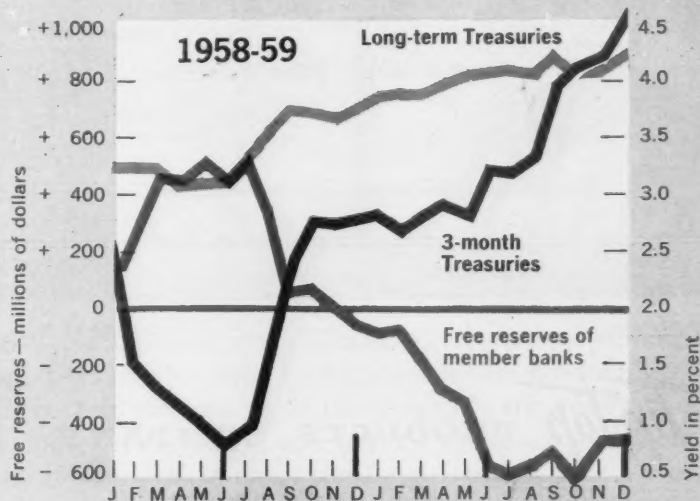
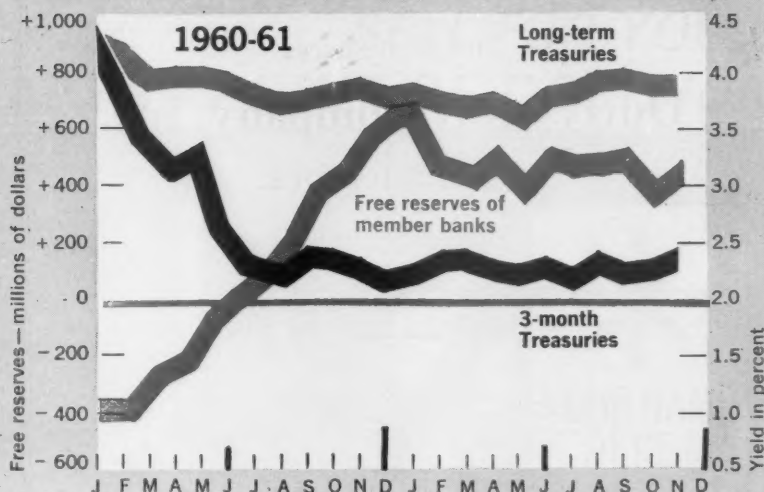
**How high?** There's no doubt that interest rates—and the cost of borrowing—will work higher in 1962. The quickening pace of business ac-

## The shape of '62

tivity makes this a certainty. But despite the best laid plans of the Fed—and the Treasury—there is a possibility that the rise in rates will be abrupt, and that the availability of credit will lessen materially. That can happen if economic activity takes on super-boom proportions or if pressure on the dollar abroad intensifies.

The big question mark is the international situation. In previous recessions, the Fed concentrated only on the domestic scene. For instance, in 1953-54 and again in 1958-59, the money managers countered the economic decline by pumping credit into the economy; and both times, the 91-day Treasury bill

### The big change in money management.



Data: Board of Governors, Federal Reserve System

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rate, the most sensitive indicator of monetary conditions, plunged below 1%. But in the subsequent recoveries, the Fed turned around fast, cutting back on the credit base. This tightening led to a fast rise in bill yields, particularly in 1959.

**'61's experiment.** In 1961, the Fed was faced with a twin problem. On one hand, it had to counter the domestic recession. On the other, it had to relieve international pressure on the dollar by trying to prevent a large-scale outflow of funds to high-yielding money markets abroad.

To do this, it abandoned its cherished "bills only" policy—the practice of confining its open market operations to short-term Treasury bills. Instead, it announced that it would operate throughout the range of maturities, thus shoring up the short-term rate and helping to bring down the long-term rate.

Money men in Wall Street admit that the authorities were fairly successful in carrying out the experiment during 1961. But many are predicting that the Fed will shift back to the policy it followed prior to the election of the Kennedy Administration. The result, they say, could be much tighter credit and much higher interest rates.

The Fed itself is not denying that rates will increase—and money tighten. But it—and the Treasury—are hopeful that the increase can be gradual.

**Slow on credit brake.** Fed Chmn. William McC. Martin has clearly indicated that he is not going to step on the credit brakes with the force that he applied in the past. Although the Fed will not continue to be so easy as it has been, Martin also stresses that the demand for funds will determine rates. This means that the money managers will not push up yields directly.

Actually, the Fed has kept credit readily available in recent months. With unemployment relatively high and with unused productive capacity still in evidence, the Fed has been anxious to provide the credit base for expansion.

At the same time, though, it has recognized that excessively cheap credit could lead to an outflow abroad. So it has been working hard to keep interest rates from sliding. Its announcement that it was raising the ceiling on the interest rates that commercial banks pay on savings and time deposits is aimed at increasing the cost of credit without affecting its availability.

**Inflation fears.** Some critics of the Fed's efforts to cooperate with the Administration feel that over the long run it is bound to fail. They

don't think that interest rates can be "jiggled" without inviting inflationary effects. And they add that while the Fed's sortie into the long-term bond market may hold down interest rates temporarily, the ultimate effect of this policy is to ruin the long-term market.

But the Fed's critics have been wrong about the market over the past year. They have expected the Fed to start reversing its easy policy. The money managers, however, have not made any noticeable shift toward tightening, so that the small rise in yields that has taken place to date has largely been due to the market's discounting. In fact, some dealers freely admit that the market seems to be "overdiscounting," and do not think that the trend toward higher rates is yet fixed.

**Credit demand.** While demand for bank credit has been on the increase, it is nowhere near boom proportions. What's more, the banks, like the money market itself, have been anticipating a much bigger demand for credit than they have received, and are exceptionally liquid.

With the banks able to switch from short-term investments into loans, and with long-term lenders also prepared to provide funds, Washington's hopes of a gradual rise in rates may be realized. But it is not only a matter of private demand; the Fed points out that the Treasury will not be a net borrower in the next six months, so it should not be putting pressure on rates.

Money market dealers dispute this contention. While they are willing to concede that a balanced budget will keep the Treasury from having a direct influence on rates, they think it will force up rates indirectly. They note that the Treasury will be doing a great deal of refunding in the first half, and no matter how accommodating the Fed is, this will be a pressure on the market.

**Balance of payments.** In addition, there's considerable concern over the balance of payments. If the dollar comes under renewed pressure, the only effective counter the Fed has is to tighten credit and raise interest rates. The policy to date, say Wall Street money men, has served only to stem a further outflow. What is needed is an inflow, and this is only possible through high rates.

But Washington does not want to see rates too high for fear that it will choke off the boom. Even more, neither the Fed nor the Treasury wants to see any sharp curtailment in credit. If it comes to a choice, the Fed will let rates rise—or even give them an assist in rising—while keeping credit available. **End**

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## Bus stop: Mobile secretarial force rushes relief help to London offices

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A businessman who finds himself shorthanded calls Challoner. The home office relays the call to the bus. Within minutes, the bus comes to a screeching halt at the caller's door. Out steps the relief secretary, portable typewriter in hand, ready for work.

## West Europe's trade unions veto Spanish unions' role in OECD

West Europe's free trade unions are refusing to permit Spain's state-controlled unions to take part in advisory work of the Organization for Economic Cooperation & Development (OECD). The dispute is holding up U. S. management's participation in OECD affairs.

The unions' complaint, sparked by the AFL-CIO, is that Spanish unions are not free. The Spanish government, as a charter member of OECD, insists that its unions be allowed to participate in OECD advisory work. Until there is a compromise, no other advisory group—including management—can take part in OECD activities.

OECD Secy. Gen. Thorkil Kristensen, who wants labor and management to play an important advisory role in OECD affairs, is trying personally to compromise the union squabble. But if the Spanish stick to their position, OECD's advisory machinery may be bogged down for some time.

Meanwhile, management is moving fast to clear up its own differences [BW Oct. 7'61, p54]. U. S., Canadian,

and European groups decided in Paris last week that management would be jointly represented at OECD. A working party of four Europeans and four North Americans (U. S. and Canadians) was set up to sketch plans for the joint management body. The first working session will be held early next month in New York.

## Export credit and insurance plan runs into organizational snags

The Kennedy Administration's export credit and guarantee program, announced with great flourish last October, has bogged down in organizational difficulties.

Under the plan [BW Oct. 28'61, p96], the Export-Import Bank will make more export insurance available through a single all-risk policy administered by the Federal Credit Insurance Assn. (FCIA)—a group of private insurance companies with offices all over the country. Ex-Im also will give guarantees to private lenders for non-recourse financing of exports.

This was the general outline of the plan. Details, and a written insurance policy, were promised for yearend. Instead, Ex-Im now says it expects everything to be buttoned up by the end of January—a shortfall of one month. Cynics say it will take considerably more time.

Ex-Im disclaims responsibility for the delay. It says the job of insuring will be done by FCIA, whose organizational headaches are its own. FCIA, however, is finding it difficult to set up an organization; personnel is a major problem.

## 'Mexicanization' of auto industry south of border extended by two new moves

Mexico announced further steps in its program for integrating and "Mexicanizing" its domestic auto industry.

The Secretariat of Commerce & Industry last week said that Studebaker and 12 European auto manufacturers may be denied import quotas for assembly parts next year unless they manufacture more components locally. This would squeeze Studebaker out of the market, making it the first low priced U. S. make eliminated from Mexico. Higher priced makes of GM, Ford, and Chrysler were dropped earlier.

The government also announced it will talk to auto manufacturers about taking in Mexican partners as majority shareholders in local plants. This is aimed at GM and Ford, whose Mexican assembly plants are wholly owned subsidiaries.

Another announcement will intensify the scramble among U. S., European, and Japanese auto makers to retain their foothold in the Mexican market. Mexico said it will narrow down the 1962 field of 22 makes to nine in 1963. Subsequently it wants only four or five makes in the low and medium priced ranges combined. These will be required to use increasingly higher percentages of locally manufactured components.





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Millions of dollars

State	1960 Revised	1961 Prel.	Percent Change 1960-61	1962 Forecast	Percent Change 1961-62
Alabama	\$4,786	\$4,880	+2.0%	\$5,134	+ 5.2%
Alaska	629	603	-4.1	621	+ 3.0
Arizona	2,650	2,782	+5.0	3,016	+ 8.4
Arkansas	2,397	2,459	+2.6	2,584	+ 5.1
California	43,448	45,990	+5.9	50,497	+ 9.8
Colorado	4,078	4,414	+8.2	4,855	+10.0
Connecticut	7,297	7,601	+4.2	8,065	+ 6.1
Delaware	1,354	1,427	+5.4	1,527	+ 7.0
District of Columbia	2,293	2,414	+5.3	2,542	+ 5.3
Florida	9,937	10,469	+5.4	11,401	+ 8.9
Georgia	6,349	6,476	+2.0	6,942	+ 7.2
Hawaii	1,442	1,530	+6.1	1,683	+10.0
Idaho	1,205	1,257	+4.3	1,326	+ 5.5
Illinois	26,425	27,338	+3.5	29,033	+ 6.2
Indiana	10,192	10,146	-0.5	10,795	+ 6.4
Iowa	5,530	5,745	+3.9	5,900	+ 2.7
Kansas	4,504	4,704	+4.4	4,892	+ 4.0
Kentucky	4,702	5,020	+6.8	5,271	+ 5.0
Louisiana	5,244	5,487	+4.6	5,761	+ 5.0
Maine	1,851	1,860	+0.5	1,907	+ 2.5
Maryland	7,459	7,583	+1.7	8,091	+ 6.7
Massachusetts	13,016	13,363	+2.7	14,165	+ 6.0
Michigan	18,225	16,624	-8.8	17,871	+ 7.5
Minnesota	7,036	7,360	+4.6	7,559	+ 2.7
Mississippi	2,557	2,660	+4.0	2,806	+ 5.5
Missouri	9,521	9,971	+4.7	10,669	+ 7.0
Montana	1,368	1,462	+6.9	1,490	+ 1.9
Nebraska	2,988	3,088	+3.3	3,131	+ 1.4
Nevada	819	850	+3.8	920	+ 8.2
New Hampshire	1,263	1,312	+3.9	1,385	+ 5.6
New Jersey	16,256	16,839	+3.6	17,984	+ 6.8
New Mexico	1,730	1,784	+3.1	1,879	+ 5.3
New York	46,931	48,404	+3.1	51,179	+ 7.0
North Carolina	7,184	7,495	+4.3	8,035	+ 7.2
North Dakota	1,104	1,095	-0.8	1,133	+ 3.5
Ohio	22,778	22,795	+0.1	24,619	+ 8.0
Oklahoma	4,312	4,478	+3.8	4,688	+ 4.7
Oregon	4,004	4,177	+4.3	4,365	+ 4.5
Pennsylvania	25,701	26,474	+3.0	28,195	+ 6.5
Rhode Island	1,909	2,001	+4.8	2,131	+ 6.5
South Carolina	3,341	3,384	+1.3	3,577	+ 5.7
South Dakota	1,256	1,309	+4.2	1,335	+ 2.0
Tennessee	5,522	5,760	+4.3	6,146	+ 6.7
Texas	18,508	18,965	+2.5	19,970	+ 5.3
Utah	1,712	1,813	+5.9	1,945	+ 7.3
Vermont	727	734	+1.0	777	+ 5.9
Virginia	7,351	7,578	+3.1	8,033	+ 6.0
Washington	6,626	6,946	+4.8	7,259	+ 4.5
West Virginia	3,109	3,202	+3.0	3,301	+ 3.1
Wisconsin	8,605	8,889	+3.3	9,600	+ 8.0
Wyoming	775	809	+4.4	847	+ 4.7
Nation	\$400,006	\$412,006	+3.0%	\$438,837	+ 6.5%

The shape of '62

### REGIONS

## Year ends on a high note

Personal income sets a record in 1961; only four states show a decline

The gathering strength of the business recovery enabled the U.S. to set a new record for personal income in 1961. According to Business Week's Measure of Personal Income, the total reached \$412-billion, an increase of 3% over 1960.

The MPI (table)—the first estimates available anywhere on incomes state-by-state—shows that 36 states and the District of Columbia gained at least as much as the nation as a whole. In only four states did income decline.

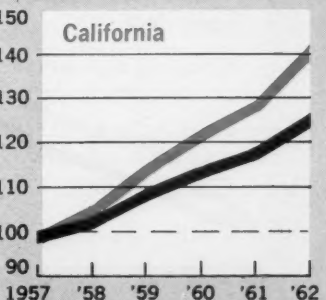
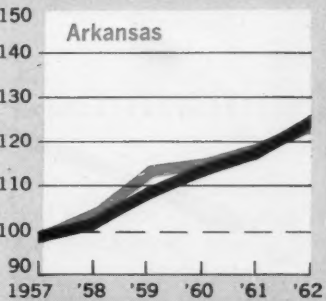
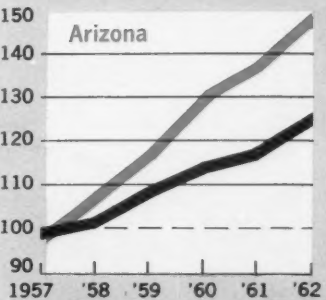
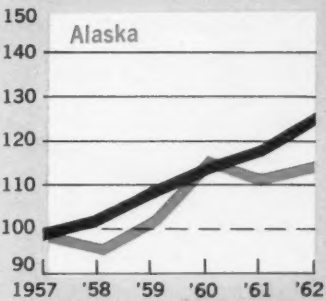
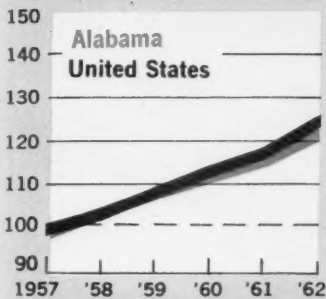
Colorado, caught up in a boom [BW Nov.25'61,p46], leads with an increase of 8.2%. It's expected to head the list again in 1962.

Michigan, in contrast, was sufficiently rocked by the ups and downs of the automobile business to wind up with an 8.8% drop. The recent spurt in cars should reverse the trend next year. But, according to

Table (left) gives dollar estimates of the total personal income earned in each state in 1961 and the forecast for 1962. Charts on following pages show on an index basis [1957 = 100] how the growth of each state's income compares with the nation's.

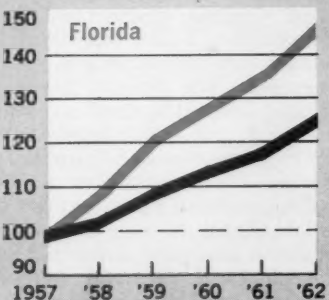
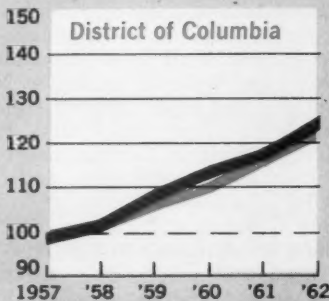
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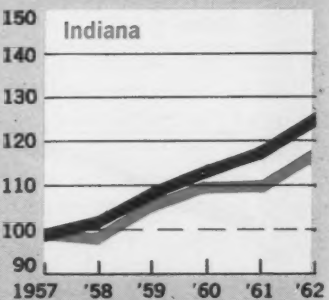
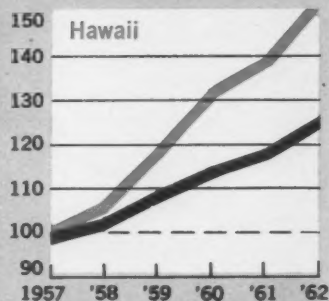
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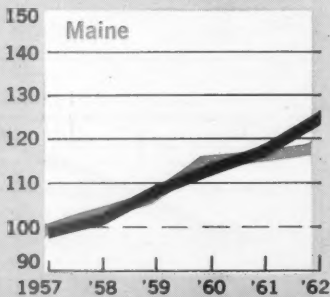
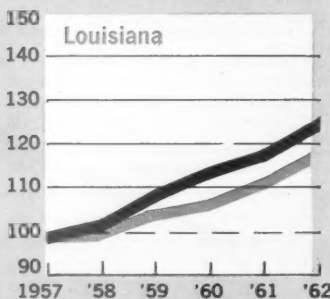
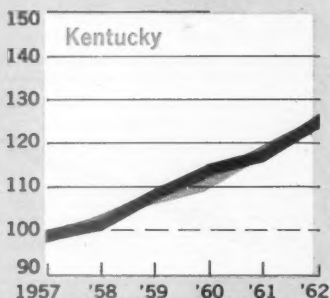
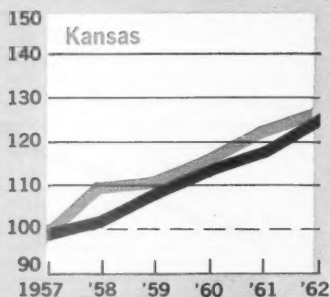
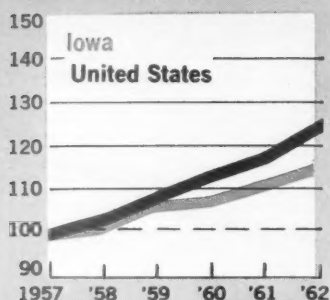
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Business Week's estimates, its forecast 1962 income of \$17.9-billion still will fall short of 1960's record \$18.2-billion.

**Optimistic.** As 1961 ends, the general picture is rosy. From Boston to San Francisco, Business Week correspondents find industrial employment mounting, but not so vigorously as production. Higher hourly wages combined with overtime work in some industries are fattening take-home pay. And unemployment is declining.

**Space jobs.** Increases and changes in defense and space spending are having widespread impact. In New England, they help such companies as United Aircraft Corp., Raytheon Co., and General Dynamics Corp. McDonnell Aircraft Corp. in St. Louis, the prime contractor for Project Mercury, is growing. Employment at Boeing Co. in Wichita has leveled off after a drop. The decline on the West Coast has been arrested, and the number of jobs again is on the increase.

**Steel and autos.** Steel centers are cheered by the improved production and employment situation, but concerned over the possibility of a strike in 1962.

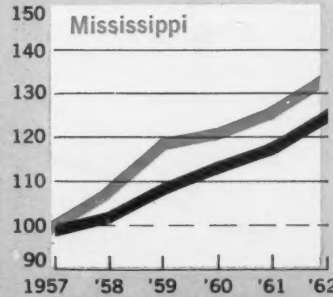
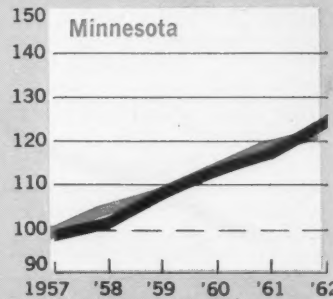
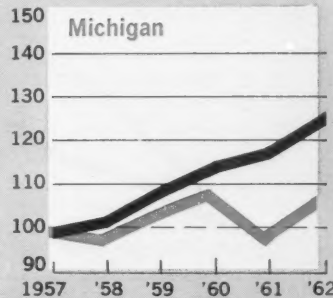
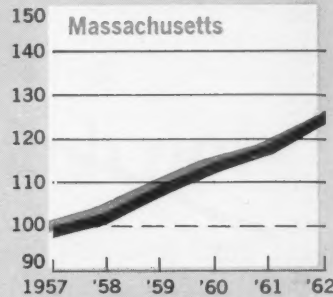
The surge in the auto industry is reflected in such cities as Detroit, Flint, and South Bend, as well as in areas of new branch plants.

**Pickup.** Among other industries, New England machinery makers are working longer weeks, and even textile machinery makers sense a pickup. Ohio found strength in office machinery. The metals mills are doing well, and leather goods had one of the best years ever. Furniture reports gains in New England, the South, and Middle West. Textile employment continues to slip in New England, but in the South it is holding level. Electronics plants from New England to the Southwest are still expanding production and payrolls. Jobs in petrochemicals on the Gulf Coast continue to decline because of increasing automation.

**Coal and oil.** Among extractive industries, bituminous coal mining has improved. In such states as West Virginia, employment in the mines still is below year-ago levels, but the men are working more hours per week. The industry hopes that greater demand by steel and utilities will push coal even higher.

Oil production also is up, but employment in such states as Texas still lags behind a year ago. Missouri is looking for the start of production at a new iron mine developed by St. Joseph Lead Co. and Bethlehem Steel Co., and Western silver miners are watching for the consequences

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## Communications versatility at your fingertips

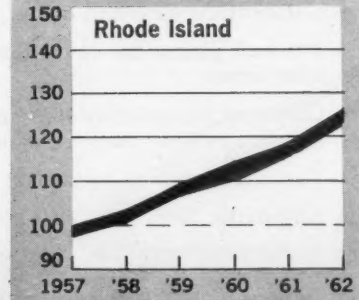
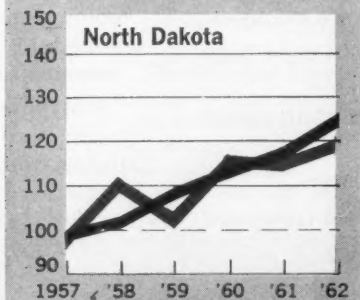
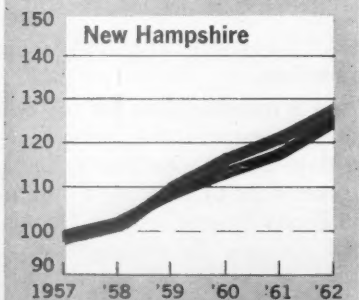
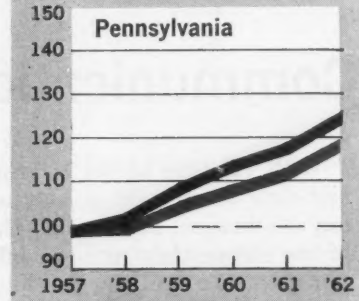
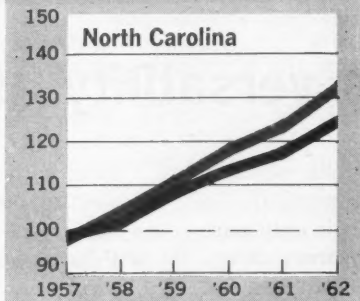
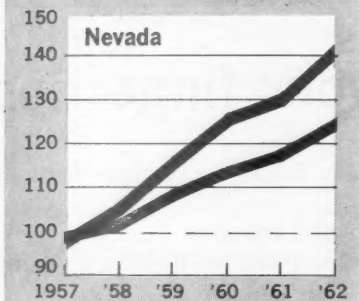
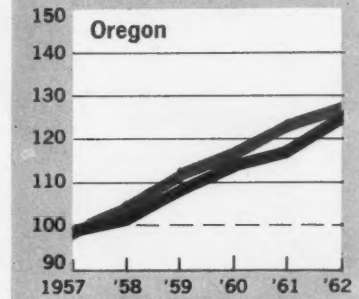
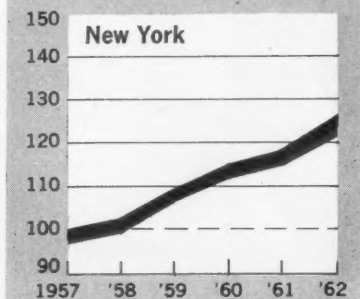
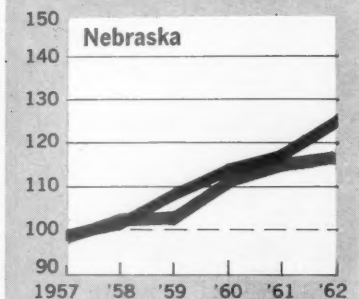
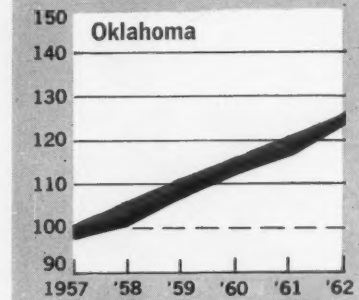
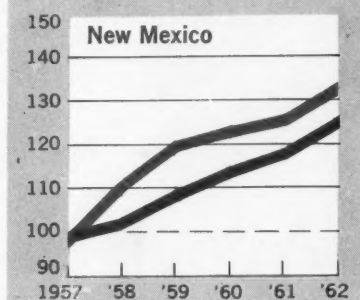
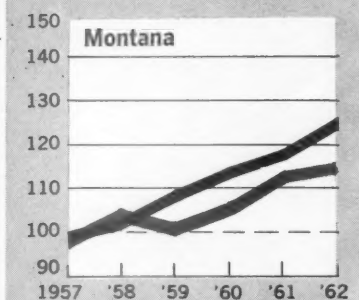
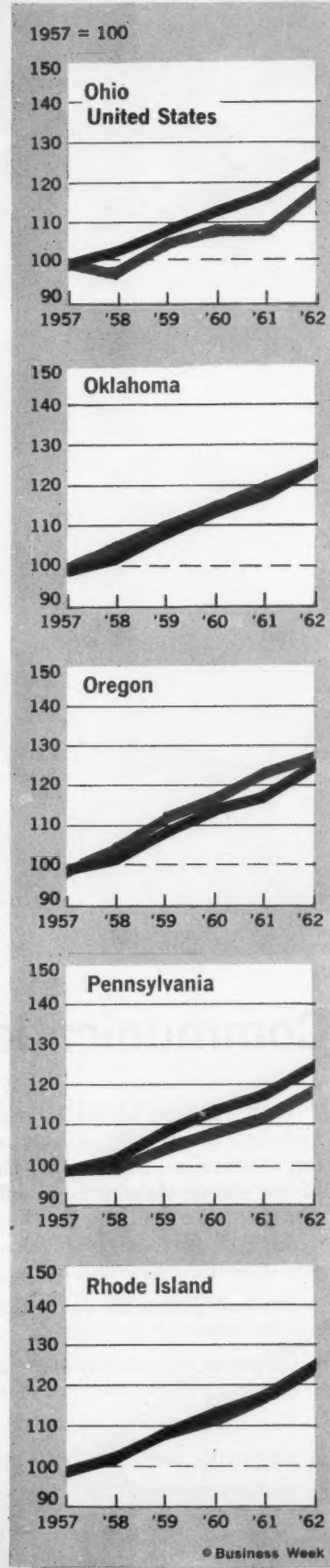
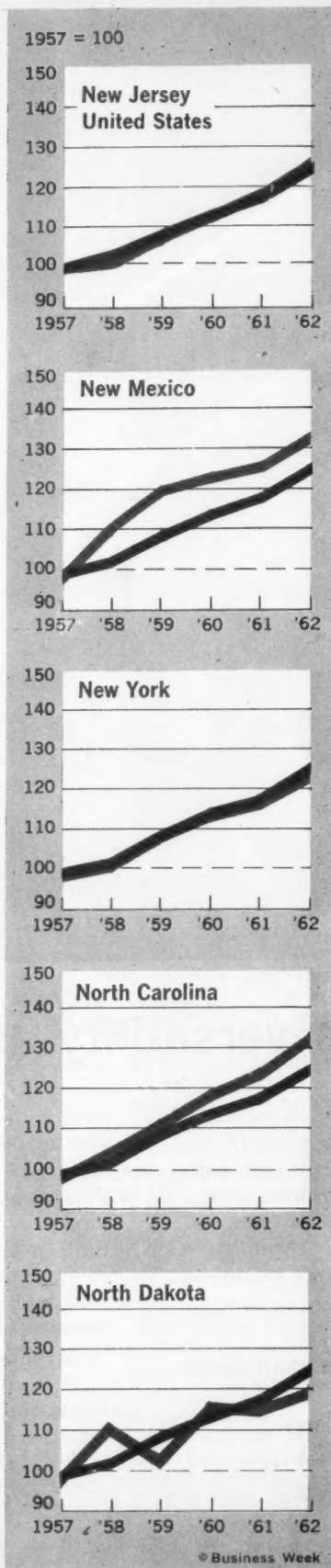
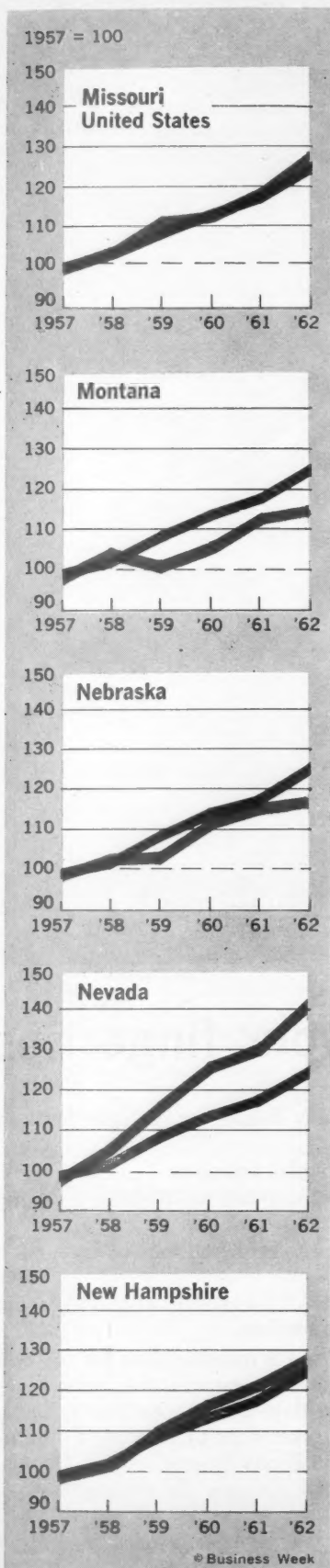
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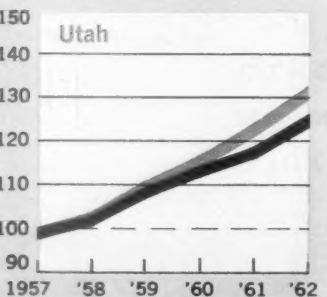
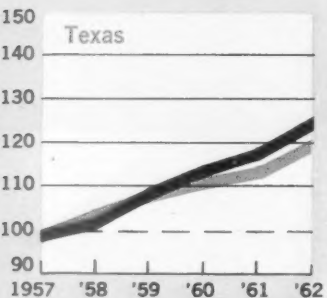
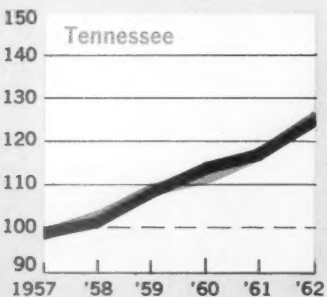
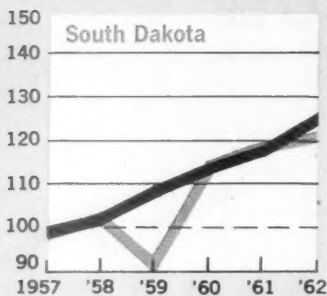
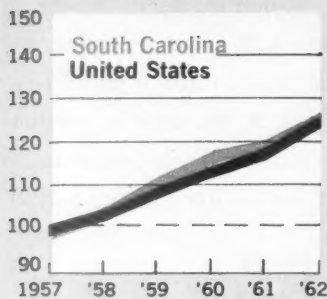
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of changes in the government's silver policies.

**Construction.** For construction, 1961 was a good year, but the mix varies from one region to another. In many areas, public works construction has been lagging, but Virginia, for one, has benefited from work at the new Dulles International Airport outside Washington, D. C., and from the huge Chesapeake Bay bridge-and-tunnel project.

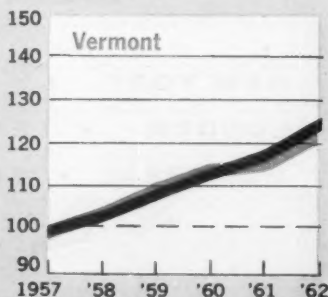
In commercial construction, the shopping center boom has continued from coast to coast; so has the office building boom in such cities as New York and Washington. Industrial investment in many places consists more of modernization than of new plant.

**Farm picture.** Farm equipment manufacturers may have bettered their 1960 figures, but even so they are disappointed. They blame acreage cutbacks, the consolidation of farms, farmers' spending on consumer goods, and, in places, drought.

Farmers' income is expected to be the best since 1953, and all but a handful of states share in the increase over 1960. Farmers gained from both the increase in cash receipts from marketings and from government payments. Kansas felt the bounty of another bumper wheat crop, but North Dakota suffered from the drought. Corn growers took more acreage out of production, but compensated for it in government payments.

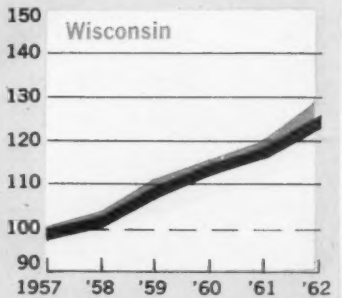
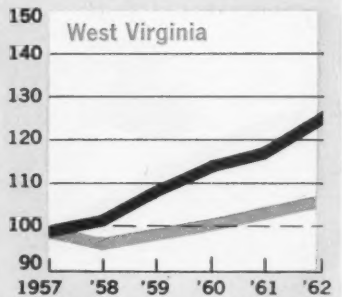
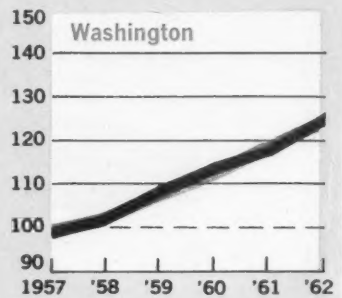
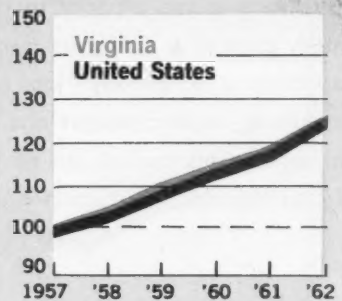
Beef prices weakened during the summer, but firmed up again. Poultry raisers were hit by soft prices. Turkeys glutted the market to the extent that growers were selling them below the break-even point. Soybean farmers found prices soaring early in the year, thanks to 1960's short crop, but watched prices drop again as the 1961 crop came in. Income from crops was down in California primarily because of a cut in cotton acreage.

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# International outlook **BW**

December 23, 1961

## **NATO officials plan nuclear striking force**

NATO is about to undertake a project that could involve it in a huge armaments program.

Next month, NATO officials will begin studying the establishment of a nuclear strike force based on intermediate-range missiles. It would be controlled jointly by NATO members.

The program, already approved in principle by the Kennedy Administration, would rank on a par with the historic 1953 decision to offset a reduction in conventional forces by introducing nuclear weapons into NATO forces.

Delegates to a recent NATO ministerial meeting decided to give study of the NATO nuclear strike force priority treatment. West German Defense Minister Franz Strauss, with U.S. backing, suggested the jointly controlled IRBM force.

A NATO missile force, whether seaborne or land-based, would have to be built around U.S. missiles and warheads. Its financing, however, would have to be shared. Besides West Germany, Belgium and the Netherlands support the plan. But Britain and France are unenthusiastic.

A thorough financial, military, and political study may take most of 1962. It's hoped, however, that much of the spadework will be done by next spring, when the NATO ministers meet again in Athens.

## **Economic group is moving ahead on schedule**

At midweek, the European Economic Community (EEC) ministerial meeting in Brussels seemed to be nearing a compromise on all issues that must be settled before the EEC can enter the second stage of its march toward a full Common Market.

There's been so much pressure built up for agreement this week that no EEC member apparently is willing to risk holding up the timetable. The second stage is scheduled to begin Jan. 1, 1962. Failure to start then would set the Common Market back at least a year, possibly longer.

At Brussels, the ministers have agreed on cartel legislation. While not so strong as some members wanted and far from having teeth like the U.S. antitrust laws, the proposal is tougher than the French originally were willing to accept.

It now remains for the West Germans to compromise on agriculture, the Common Market's most controversial item. West German farmers enjoy prices and supports much higher than those of their neighbors and are reluctant to give them up. Reports from Brussels at midweek, however, indicated that the West Germans would give ground.

## **Latin Americans are pleased by Kennedy's visit**

The resounding success of Pres. Kennedy's one-night stands in Venezuela and Colombia has given the Alliance for Progress and U.S. popularity a boost in Latin America.

How much of a boost and how long it will last after the confetti is swept up is anybody's guess. You can't measure the impact of a public relations operation like this in terms of votes against Castro or votes for reform measures in Latin American parliaments.

Latin Americans are pleased about the visit for several reasons. In his speeches, Kennedy came down hard on the side of the little man. He sided with the "good guys" who are pushing social reforms. And he showed



## International outlook Continued

courage in braving possible leftist incidents such as marred former Vice-Pres. Nixon's tour in 1958.

Most important, the trip salved ever-sensitive Latin American pride. Many Latin Americans suspect that the U.S. ranks its relations with Europe and with the hotter spots in the cold war above its ties with Latin America. His trip may dispel these suspicions somewhat.

In general, Washington thinks that U.S. relations with Latin America are improving. A possible result: There is an increasingly good chance that the majority of Latin American foreign ministers will vote to sever diplomatic relations with Cuba at a conference next month.

### The President mixes politics and economics

Kennedy has decided to go ahead with U.S. financial assistance to the \$324-million Volta River project in Ghana.

Kennedy committed the U.S. to the project last July, then kept Ghana's Pres. Nkrumah waiting. The President has been irked by Nkrumah's support for Russian policies and by reports of political repression and economic extravagance in Ghana.

The U.S. will lend \$133-million for the \$196-million dam and \$128-million aluminum smelter. It will also insure \$54-million worth of political risks taken by Valco, a consortium led by Kaiser Engineers International, with Reynolds Metals Co. as a minor partner. Valco will own and operate the aluminum plant.

Here's a breakdown on the financing of the entire project. For the dam, the Agency for International Development (AID) will lend Ghana \$27-million. Another \$10-million will come from the Export-Import Bank for purchase of equipment. The World Bank will put up \$47-million, Britain \$14-million, and the remaining \$98-million will come from Ghana itself. For the aluminum smelter, the U.S. will lend Valco \$96-million and Valco will finance the rest.

You'll see more of the backing and filling on foreign aid commitments that preceded this week's decisions. Kennedy, the politician, feels that economics can't be divorced from politics. He expects a normal politician's consideration from someone who has been done a favor.

Above all, Kennedy doesn't want foreign governments to think they can take U.S. aid for granted, regardless of policies they pursue. Whether this tactic will prove out is open to question in Washington.

### U. S. racks up U. N. victory over Communist China

The U.S. has won a surprisingly clear victory in the U.N. in maneuvering to keep out the Communist Chinese for another year [BW Dec.16'61,p103].

In a showdown vote last week, the Communists and the sympathetic neutrals failed to muster even a simple majority, let alone the two-thirds vote needed to replace the Nationalist Chinese delegation with representatives from Peking.

When it came to a choice, many nations that think the Communist Chinese should be represented in the U.N. balked at throwing out the Nationalists. Some of this sentiment is the result of persuasive politicking on the part of the U.S. delegation.

The movement toward some form of the so-called "Two Chinas" solution seems to be gaining momentum. This would have both the Nationalist and the Communist governments seated in the U.N. There are all sorts of arrangements being considered, but little is likely to happen until next year.

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# The White House role in bargaining

**Administration hopes to keep wage boosts in line with gains in productivity. But unions have already defied plea for moderation. Management plans firm stand**

The White House will be an important factor in steel and other key bargaining situations in 1962 (table, pages 82-83), even though unions now show no willingness to exercise the "voluntary restraint" called for by the Administration.

Pres. Kennedy and his Secretary of Labor, Arthur J. Goldberg, want over-all wage movements kept in line with increases in productivity. Labor intends to press for even more substantial wage gains and shorter hours, regardless, contending that most employers can give substantial wage and fringe benefits without requiring any price increases. If the unions are successful, the cost to employers would at least match 1961 figures, and might exceed them.

Management in steel and other industries is determined to continue the fight going on since 1958 to hold down total labor costs. More "tough and realistic" bargaining by employers lies ahead, with unions likely to show more interest in security—assured weekly pay—than in money.

**General concern.** The Administration's stand for moderation may make the unions more vulnerable; the public pressure will limit their leverage at bargaining tables.

This could be a plus for employers, but many contend that it is heavily offset by what they consider to be Administration support for productivity raises. Basic steel strategists are now working on a firm position against further "inflationary" increases in labor costs. They are frankly unhappy about a possibility that the Administration policy may undercut their position.

Goldberg cautioned AFL-CIO's biennial convention in Florida last week that bargaining should be conducted by labor and management with "awareness of the present economic situation and domestic industry's competitive position in world markets." Even so, he said that there appears to be "plenty of room" for further raises.

In explaining this, Goldberg said:

■ He does not consider the terms of the auto settlements in 1961 in-

flationary—but he cannot say now that similar terms in steel contracts might not be.

■ He will be satisfied, personally, if management and unions bargain in 1962 "as responsibly as they did this year." By and large, he said, settlements in 1961 were sound ones; they did not create price pressures.

Many in management disagree wholly or in large part with the Secretary. One steel employer in Pittsburgh protested that Goldberg had as much as advised the United Steelworkers to bid for raises at least in line with those negotiated this year by the United Auto Workers.

**Spotlight on steel.** The 1962 bargaining spotlight will be on the basic steel industry. Both labor and management already are at work on negotiating material for talks start-

## The shape of '62

ing in May, with a June 30 deadline. Contracts cover a half-million workers, but terms will be extended to thousands more in related industries.

Otherwise, contracts to be renegotiated in 1962 cover 400,000 craft workers in the construction industry; 163,000 in the aircraft industry; possibly 200,000 in coal mining; about 250,000 in trucking; more than 100,000 in the telephone industry, and fewer than 50,000 each in aluminum, shipbuilding, ordnance, and other industries. Reopenings are due in other industries.

**Probable issues.** Stress will be placed on efforts to cut working time in order to spread employment—if not by reducing the work week, then by longer vacations, more holidays, sabbatical leaves, or other devices.

The Administration flatly opposes cutting the work week; Goldberg re-

affirmed this to AFL-CIO, warning that reduced work time would be "undesirable in the immediate future," in view of world conditions. AFL-CIO replied defiantly that it will press for reduced hours, to cut "over-high" unemployment, unless government policy can create jobs for all at 40 hours a week.

Efforts to make layoffs more expensive will continue in 1962—with further pressure for United Auto Workers-type clauses for part-pay for unworked hours in short work weeks. Unions also can be counted on to press for retraining and relocation rights, more severance pay, pension and insurance safeguards, and other protective clauses for those displaced through automation.

On the wage front, deferred raises—those negotiated in 1961 or before and payable in 1962—will exert a strong influence on pay settlements, as they have in every recent year. Averaging about 8¢ an hour, the automatic raises will become a minimum for unions in new bargaining.

**What's due.** Some 2.7-million workers will get raises without bargaining in 1962. Among them:

Auto workers will get 2½%, with a minimum 6¢ an hour. Rubber workers are due 4¢ to 7¢. Electrical workers under major contracts will get 3% to 4% or, where raises are in cents per hour, 4¢ to 10¢. Most in meatpacking will get 6¢. Truck drivers and warehousemen are due 8¢ to 10¢—but some will get more.

In 1961, 2.9-million workers got deferred raises that averaged about 8.2% an hour, and negotiated raises were close to that figure. According to AFL-CIO, the median for negotiated increases in 1960 and again this year was between 8¢ and 12¢ an hour, or about 3% to 5%.

Federation economists expect the economy to continue rising through 1962. On the basis of their recommendations, AFL-CIO unions at first expected to seek—and collect—more than in the past two years. Now, with the public pressure for moderation, they concede that bigger raises won't be easy to win.

# Contract dates for 1962: deferred raises create

Industry	Employer	Union	Employees	Contract expiration	C-of-L dates or [reopenings]	Deferred raises
<b>JANUARY</b>						
Mining	Coal producers	UMW	200,000	Open end	[can be reopened anytime]	—
Trucking	Auto carriers	IBT	15,000	Feb. '64	Annually Mar. 1	Jan., Sept. 9c plus
<b>FEBRUARY</b>						
Elect. prod.	Electric Auto-lite	UAW	11,400	Feb. '62	—	—
Instruments	Minneapolis-Honeywell	IBT	7,700	Jan. '63	[can be reopened 2/62]	—
Glass	Glass Container Mfrs. Assn.	Glass Bottle	8,000	Feb. '62	—	—
Glass	Pittsburgh Plate	Glass	10,000	Feb. '62	—	—
Food	Cal. Processors	IBT	50,000	Feb. '62	—	—
Communications	N. Y. Tel. Co. [plant div.]	CWA	24,000	Feb. '64	[can be reopened 2/62]	—
Trucking	Central States	IBT	155,000	Jan. '64	Annually Feb. 1	Feb. 1, 8c plus
<b>MARCH</b>						
Aircraft	North American	IAM	8,500	Mar. '62	Jan., quarterly	—
Chemicals	Dow Chemical	Dis. 50 UMW	6,200	Mar. '62	Jan., quarterly	—
Glass	Owens-Illinois	Glass Bottle	10,300	Mar. '62	—	—
Airlines	American	TWU	10,000	Mar. '62	—	—
<b>APRIL</b>						
Elect. prod.	General Electric	IUE	70,000	Sep. '63	—	Apr. 1, 3-4%
Elect. prod.	Westinghouse	IUE	36,400	Sep. '63	—	Apr. 16, 4-10c
Textiles	Berkshire-Hathaway	TWUA	5,300	Apr. '62	—	—
<b>MAY</b>						
Shipbuilding	Newport News Ship. Ind.		12,000	May '63	[can be reopened 5/62]	—
Ordnance	Aero-Jet	IAM	8,000	May '62	Mar., quarterly	—
Paper	Int'l Paper [Southern Kraft]	Paper; Pulp; IBEW	15,000	May '62	—	—
Paper	Pacific Coast Assn.	Paper; Pulp	20,000	May '62	—	—
Textile	Dan River	UTW	9,000	May '62	[can be reopened anytime]	—
Apparel	Garment mfrs.	ILGWU	32,400	May '62	—	—
Communications	N. J. Bell and N'western Bell	CWA	28,000	May '63	[can be reopened 5/62]	—
Communications	Western Union	CWA	23,900	May '62	—	—
<b>JUNE</b>						
Steel	Basic steel	USW	500,000	Jun. '62	—	—
Steel	Kaiser Steel	USW	11,000	30 days after basic contract	—	—
Aircraft	Douglas, General Dynamics	IAM	32,200	Jun. '62	quarterly, varying dates	—
Aircraft	North American	UAW	25,000	Jun. '62	Jan., quarterly	—
Shipbuilding	General Dynamics and Pacific Coast	Metal Trades	17,300	Jun. '62	—	—
Shipbuilding	N. Y. Shipbuilding	Boiler-makers	9,700	Jun. '63	—	Jun., 8c
Ordnance	General Dynamics [Astronautics]	IAM	13,600	Jun. '62	Jun., quarterly	—
Instruments	Sperry Rand [Gyroscope]	IUE	6,500	Jun. '64	Jun. '62 and quarterly	Jun., 2½c



# negotiating pressures

Industry	Employer	Union	Employees	Contract expiration	C-of-L dates or [reopenings]	Deferred raises
Rubber	Firestone, Good-year, Goodrich	URW	47,500	Apr. '63	[can be reopened anytime]	Jun., 4-7c
Rubber	U. S. Rubber	URW	25,000	May '63	[can be reopened anytime]	Jun., 4-7c
Chemicals	American Viscose	TWUA	7,500	Jun. '62	—	—
Lumber	Oregon, Wash- ton operators	Carpenters, Woodworkers	28,000	May '63	[can be reopened 5/62]	—
Airlines	Pan American	TWU	7,200	Jun. '62	—	—
Airlines	United	IAM	9,000	Jun. '62	—	—
Maritime	Atlantic & Gulf	NMU	25,000	Jun. '65	—	Jun. 2½%
Maritime	Atlantic & Gulf	SIU	15,000	Jun. '62	—	—
Maritime	Pacific Maritime Assn.	ILWU	16,000	Jun. '66	[can be reopened 6/62]	—
Communication	Michigan Bell, Pacific T. & T.	CWA	32,300	Jun. '63	[can be reopened 6/62]	—
Hotel	N. Y. Hotel Assn.	Hotel Trades	35,000	May '63	[can be reopened 6/62]	—
Utilities	Pacific Gas, Elect.	IBEW	14,100	Jun. '62	—	—
JULY						
Aluminum	ALCOA, Kaiser, and Reynolds	USW & Alum. Wkrs.	32,000	Jul. '62	Feb., semi- annual	—
Aircraft	Gen. Dynamics, Lockheed	IAM	29,500	Jul. '62	quarterly, varying dates	—
Ordinance	Martin Co. [Md.]	UAW	7,500	Jul. '63	[can be reopened 7/62]	—
Petroleum	Sinclair Oil	OCAW	9,000	Jul. '62	—	—
Communication	S'western Bell	CWA	38,900	Aug. '63	[can be reopened 7/62]	—
Trucking	Western States Freight Truckers	IBT	60,000	Jul. '64	Annual, July	July, various raises
AUGUST						
Machinery	Timken Roller Bearing	USW	10,000	Aug. '62	—	—
Auto	American Motors	UAW	23,000	Aug. '64	Mar., quarterly	July, 2½% 6c up
Shipbuilding	Bethlehem Steel	IUMSWA	18,000	May '63	—	Aug., 5c or 2.6%
Trucking	N. Y.-N. J. area general truckers	IBT	50,000	Aug. '62	—	Mar., Jun. inequities
SEPTEMBER						
Auto	Big Three	UAW	490,000	Sep. '64	Mar., quarterly	Sept., 2½% 6c up
Can	American and Con- tinental Can	USW	32,000	Sept. '62	Apr., semi- annual	—
Machinery	General Motors	IUE	25,000	Sep. '64	Mar., quarterly	Sept., 2½% 6c up
Machinery	International Harvester	UAW	32,000	Oct. '64	Mar., quarterly	Sept., 2½% 6c up
Aircraft	Boeing	IAM	35,000	Sept. '62	—	—
Food	Armour, Swift, and Wilson	UPW	29,000	Aug. '64	Jan., semi- annual	Sept., 6c
Maritime	New York Shipping	ILA	20,000	Sept. '62	—	—
Communication	Southern Bell	CWA	55,000	Aug. '63	[can be reopened 9/62]	—
OCTOBER						
Machinery	Deere & Co.	UAW	17,000	Oct. '64	Mar., quarterly	Oct., 2½c
NOVEMBER						
Aircraft	United [Conn.]	IAM	15,400	Nov. '62	—	—
Communication	Am. Tel. & Tel.	CWA	22,300	Nov. '63	[can be reopened 11/62]	—
DECEMBER						
Apparel	Eastern Headwear	Hatters	11,000	Dec. '62	—	—
Shoe	Mass. mfrs.	Shoe	10,000	Dec. '62	—	—



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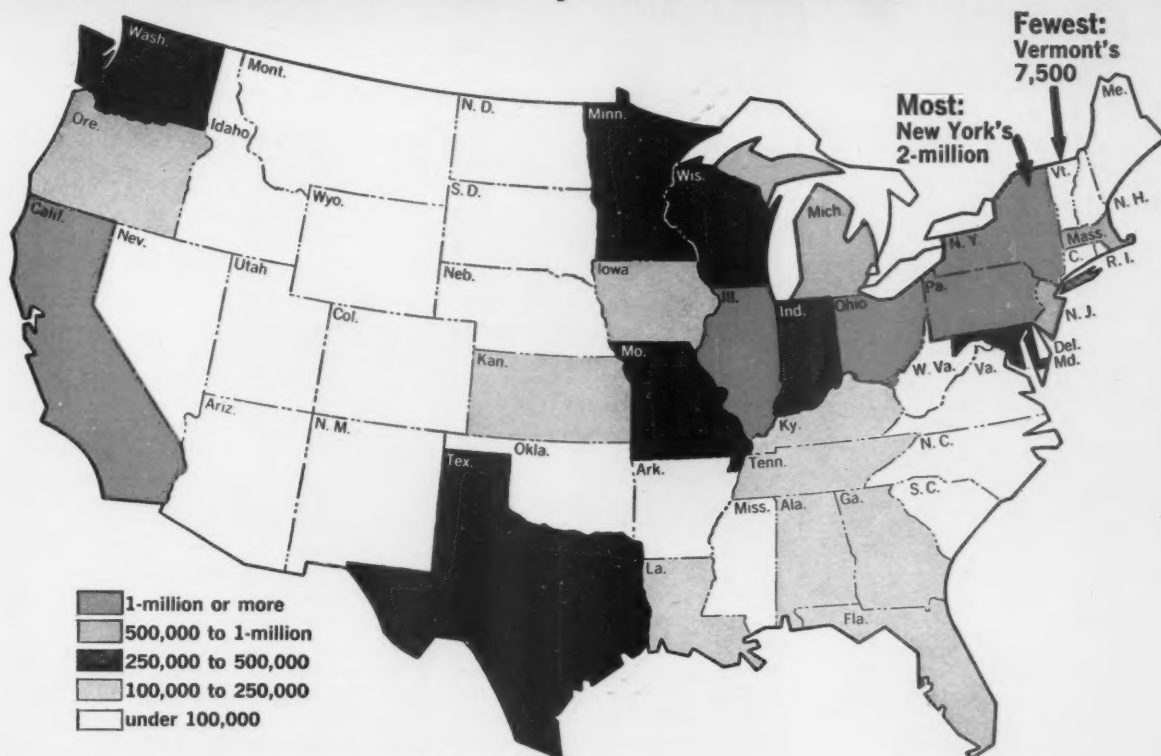
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## Where AFL-CIO membership is concentrated



Data: Based on Labor Dept. statistics for 1960 that show 13.9-million members in 134 unions (not including Alaska and Hawaii). Federation figures are lower — 12.5-million for total membership.

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# Harmony in the House of Labor?

**AFL-CIO sets up machinery to help heal splits in its ranks over job jurisdiction and race prejudice—and thus free vital energies for membership drives and other key activities**

After years of frustration and deadlock, AFL-CIO unions last week set up machinery for dealing with some of their most pressing internal problems. Their success does not necessarily mean harmony in the House of Labor. Odds are still against that. It does mean that there is now a working basis for easing some chronic troubles—including labor's spotty organizing record (map).

**Two steps.** AFL-CIO's biennial convention in Florida acted decisively in two critical areas:

- It set up internal disputes machinery for coping with jurisdictional conflicts between craft unions from the old AFL and industrial unions merged into AFL-CIO from CIO.

- It adopted the strongest anti-discrimination policy ever agreed to

by the crafts, and moved quickly to implement it by strengthening the federation civil rights department.

On paper, the actions moved AFL-CIO further into areas up to now jealously regarded by affiliates as outside the federation's jurisdiction—areas protected by the charter-guaranteed autonomy of member unions. Centralized control is something new and disturbing to the crafts.

Their acceptance of some measure of it was a surprise to most of the 900 delegates crowded into the convention hall. So was the resolution of the long-festering civil rights fight that had divided AFL-CIO Pres. George Meany and the federation's only Negro vice-president, A. Philip Randolph.

The compromises and the surface spirit of cooperation and even cordiality between the feuding parties in each dispute raised delegates' hopes that their 1961 convention would be historic for achieving real unity in a torn organization.

At this point, however, confidence would be premature.

## I. Making machinery work

To be effective, the machinery for resolving inter-union job disputes and for wiping out race bias in unions must be used in good faith and operated smoothly. The AFL-CIO policies must be enforced firmly and quickly, against internationals and—more a problem—their locals.

The disputes plan provides that



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(1) no AFL-CIO union shall organize or attempt to represent employees already represented by another AFL-CIO union; (2) every union will respect the "established work relationship" of other unions—that is, it will not seek jobs for its members if they customarily have been performed by members of another union; and (3) no union shall "circulate or cause to be circulated" charges or reports that may have the effect of "bringing another affiliate into public disrepute."

**Settlement steps.** If disputes over jobs occur, the AFL-CIO president will name a mediator from within labor's ranks. Many believe this may be the most effective part of the settlement plan. Since the next step is arbitration through a decision-making outsider, feuding unions are expected to rely more on mediation.

If a settlement isn't reached through mediation within 14 days, the dispute will be turned over to David L. Cole, now impartial umpire under a limited AFL-CIO no-raiding agreement. Cole will be given a broader role under the new plan. None of Cole's raid decisions have been overturned. The presumption is that his record of acceptance will be much the same under the new machinery. But, at the crafts' insistence, an appeal is possible.

The losing union in any case can file an appeal within five days, and a screening committee including Meany and two AFL-CIO vice-presidents will decide whether grounds exist for a full-scale hearing. If so, the final appeal is to the full executive council; an award can be upset by 15 votes in the council.

**Enforcement.** The industrial disputes policy is backed by a series of sanctions for violations of awards. There is considerable discretion allowed in imposing these. Decisions on what should be done will be left pretty much to Meany. He has the authority to act decisively—in a way that would make punitive action meaningful. Conversely, he also has freedom to act moderately, if at all.

Meany will have alternatives that include fullest possible AFL-CIO backing for a wronged union; critical publicity for an offender; and the barring of all AFL-CIO services, facilities, protection, or assistance of any kind under any circumstances for an offending union—a raider may be raided. What he will do—how tough he gets—could decide the peace machinery's effectiveness.

In the case of the civil rights machinery, AFL-CIO Secy.-Treas. William F. Schnitzler has been named chairman of a new 11-man civil rights panel inside the federation.

Staff changes are planned to reinforce the campaign against bias. Negro representation is expected to be increased.

## II. Labor looks ahead

Meany is entering what may be a last term in the presidency. At 67 he is now past retirement age, and he is determined to insure that the disputes and anti-bias machinery work effectively before he steps down.

He considers the machinery—"something . . . that I have long hoped to accomplish"—to be a firm step toward harmony that "will free us, free our energies and our time and our money, to turn to other problems."

By turning to other problems, Meany means more concentrated efforts on organizing to expand the present centers of AFL-CIO strength—and to move against areas of weakness. He means more unified action on Capitol Hill and in state capitols, where AFL-CIO says it has been effective—but not effective enough. He means more successful political action and more pressure behind broad economic and social issues, including some on which the Administration and labor clearly do not see eye to eye.

Particularly, Meany considers more unity—now—is a necessary defensive move against efforts expected in 1962 to bring unions under antitrust laws, and against the tough position management is taking in collective bargaining in many industries, (page 81).

**What AFL-CIO wants.** The federation's biggest objective in the next two years is to start growing again. AFL-CIO affiliates have failed to keep pace with the expanding labor force over the past six years and most of its unions are down in memberships.

It wants, from the Administration, new boosts for an economy that labor says must expand faster, and more effective steps against unemployment. Among other things, the federation suggests a work relief and public works program.

Routinely, it wants more housing—without color bars—and more federal aid to education, health benefits for the aged, federal standards for unemployment compensation programs, legislation to protect consumers and federal budget reforms.

It wants a higher minimum wage—\$1.50 an hour—for more employees; tax law reforms to ease levies on low and moderate income families and to close business tax loopholes; and reconsideration of Taft-Hartley and Landrum-Griffin Acts. **End**

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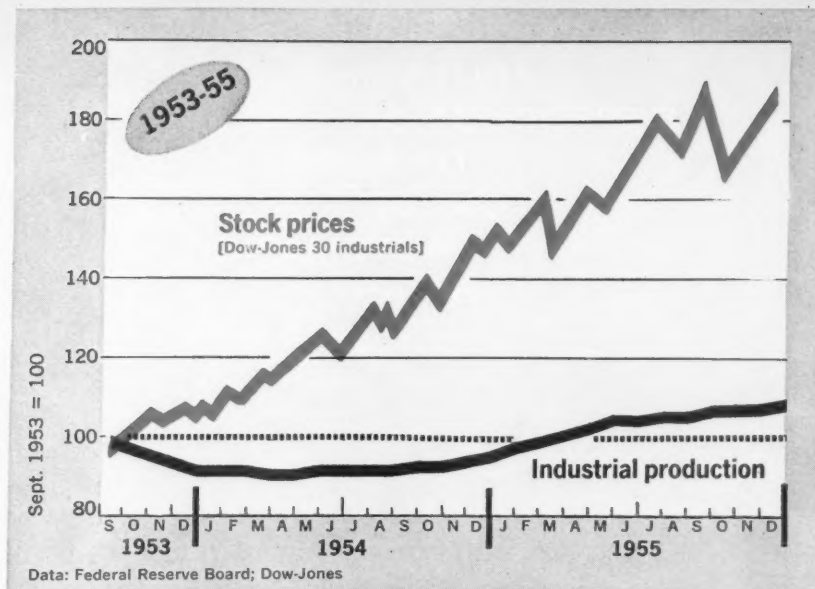
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## The shape of '62

Stock prices have climbed in each phase of the bull market, but the extent of the rise is clearly diminishing.



### THE MARKETS

## Bull market—but how strong?

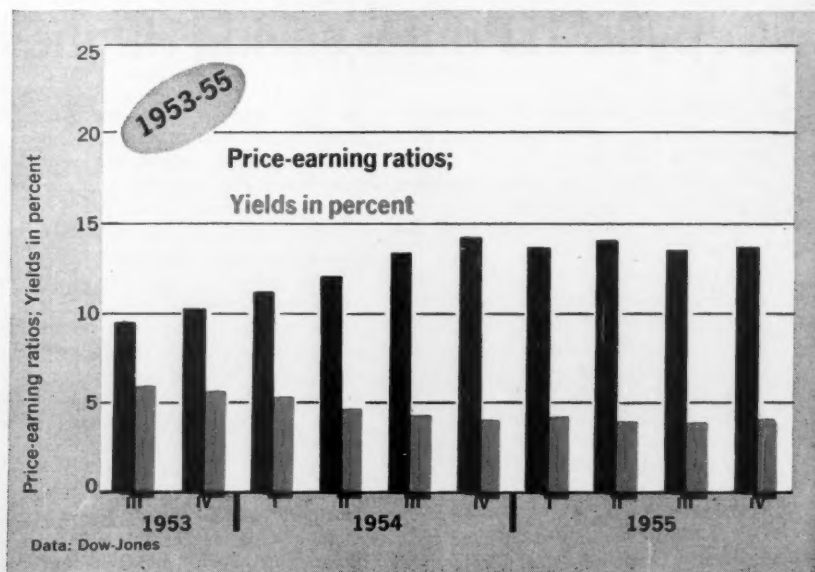
Stock prices are likely to keep rising. But with averages near all-time peaks and yields at new lows, shifts in the economy or in investor fashion could have sharp effects

As the year draws to a close, most stock averages are at or near their all-time peaks, while yields are at new lows (chart). But Wall Street

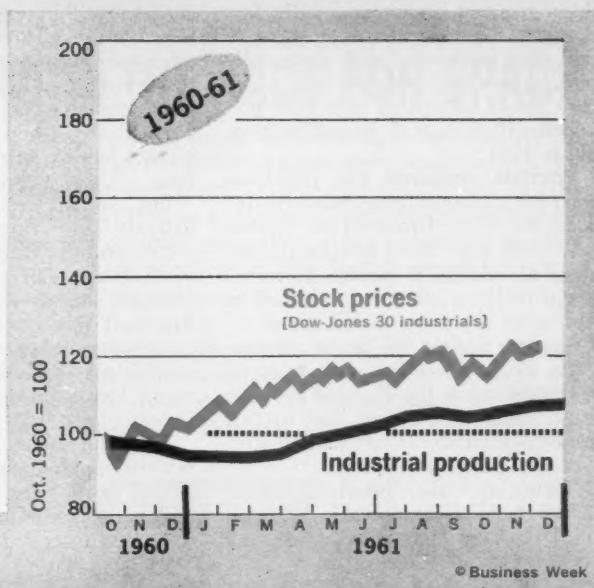
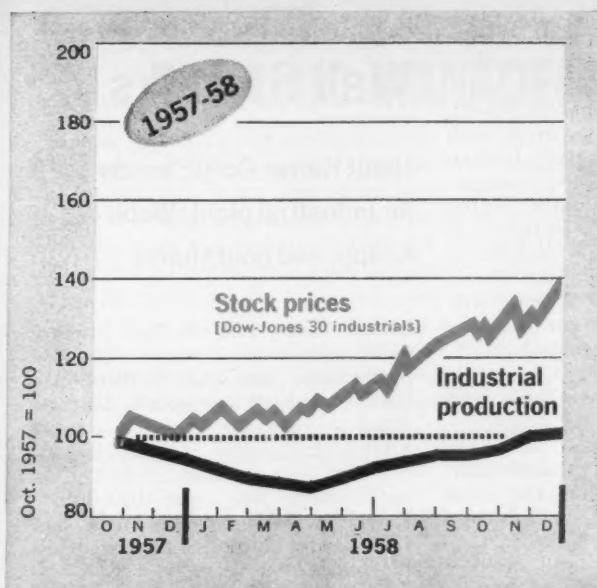
analysts are freely predicting that the bull market will continue, with new highs registered in stock prices during 1962. The consensus is that

the Dow-Jones average, the most popular market yardstick, will hit 800 or better next year compared to its current level of 725.

Stock buyers have been paying higher and higher prices for each dollar of earnings, and are accepting lower returns in the way of dividends.







In some respects, the current mood is reminiscent of late 1959, when optimism about the "soaring 60s" and predictions of a rampaging market were widespread. But the market saw its high in the very first days of the new year, and then faded with the onset of the recession.

**Going up.** Now, though, economic conditions appear much more conducive to a further rise in business activity (page 17). True, stock prices are anticipating better business—with higher corporate profits and larger dividend payouts. But there is still some uncertainty about the extent and duration of the rise in the economy. If the boom turns out to be unexpectedly lusty, then the de-

mand for stocks may be even bigger than expected.

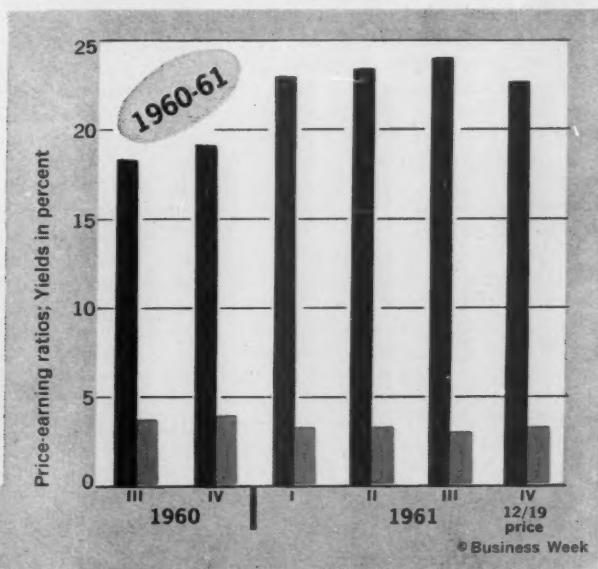
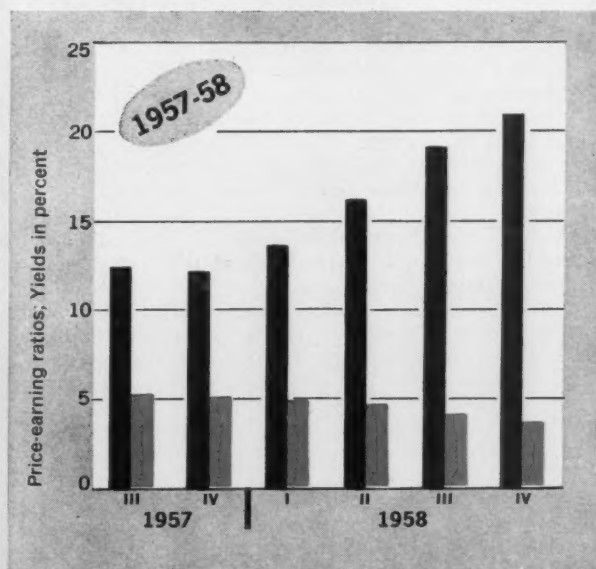
In a sense, a 10% rise in stock prices, which seems to be the standard prediction, is based on the standard economic forecast of a \$560-billion-to-\$570-billion gross national product. So if the economy should jump, say, to \$575-billion to \$580-billion, it might touch off a new wave of enthusiasm, sending stocks up from 15% to 20%.

But if the economy fails to perform according to expectations, then it could mean a decline in the market. And because optimism is so general, any reversal in expectations could lead to a sharp selloff. Indeed, a good many Wall Street men are bull-

ish only about the first half of the year, feeling that stocks could decline in advance of a leveling off in the economy.

**Forecaster.** The fact is that all during the 1950s the market has had an exceedingly good record as an economic forecaster. Its declines have presaged declines in business activity, and its rises have anticipated economic upturns. In October, 1960, for example, when the economy was still declining, the market started to rally, correctly forecasting that the recession would be mild and short-lived.

Thus, the odds are strongly in favor of an increase in stock prices during 1962, but unless the economy



does grow at an unexpectedly fast rate, the chances are that the rise will be moderate and frequently punctuated by setbacks. And a decline could take place next year if it appears likely that there will be trouble in 1963.

**Possible problems.** The problems need not necessarily be domestic. Indeed, the major threat to the market may well arise from foreign doubts about the dollar. If foreign investors begin to liquidate their holdings in American stocks, it could touch off a market decline of major proportions. For if the dollar were to come under pressure, the Federal Reserve might clamp down on the use of credit, which so far has helped support the demand for stocks.

There are also internal market forces that may be operating to limit the rise. Ever since 1953, each succeeding leg of the bull market has been feeble and shorter than its predecessors. Admittedly, each rise has started from a higher base, but most of the over-all advance in stock prices has not derived from a rise in corporate earnings. Rather, investors have been willing to pay more for each dollar of earnings, and to take less in the way of dividends.

This shows up clearly in the climb in price-earnings ratios and the drop in yields. Today, stocks are selling at an average of over 20 times earnings; and most blue chips are yielding less than 3%, compared to 5% in 1954 and over 3% in 1959. Investors are obviously less interested in yields than in capital gains.

**Cult for equities.** This situation is a reflection of the cult for equities that came into fashion during the 1950s. Investors, both individual and institutional, felt that stocks offered an opportunity to participate in the growth of the economy, while serving as a hedge against inflation. And with the government committed to a policy of countering economic declines, the chances of a sharp drop in the economy—or in stock prices—were minimized. So the demand for stocks grew, and with the supply limited, prices have risen far faster than earnings justified.

What's more, the switch to a flexible monetary policy, which took place in 1951, meant that interest rates—and bond prices—were subject to big fluctuations. And only professionals with a real feel for the market could expect to make profits on bonds. So, many former bond investors, who found that fixed income obligations did not provide an adequate return and failed to offset inflationary trends, also turned to stocks.

This big demand for common

stocks is still in vogue, but it is questionable just how much further price-earnings ratios can be pushed up. Similarly, the miniscule yields now available on common stocks, particularly when compared with quality bonds, are unlikely to continue their downward course.

But stocks could move higher without any further increase in price-earnings ratios or declines in yield. For corporate earnings should increase sharply in 1962, along with dividend payouts. If, for example, earnings per share increase by 15%, a 10% rise in stock prices would mean lower ratios than those now prevailing.

**Thinking twice.** Even so, many institutional managers think the market is at a very vulnerable level, and are reexamining their firm commitments to equities. Some, in fact, think that the yields—and safety—provided by bonds should not be ignored. And if there is a major switch from stocks to bonds the market could be hurt.

This is because the policies of professional managers are closely followed by the public, and the movement into a group usually takes on bandwagon characteristics, with prices riding a roller coaster.

**Readjustment.** In a sense, the market has been going through a series of rolling readjustments. But when a group is bid up from its historical ratio of, say, 10 times earnings to 25 times earnings, the subsequent decline usually goes no lower than 15 to 20 times earnings.

Take the electronic group. They were bid up to fantastic heights, and sold anywhere from 40 to 100 times current earnings. Then, this spring, disenchantment set in. The price declines were huge. Yet even today, most electronics stocks are selling well above 30 times earnings.

Many of those who switched out of electronics went into foods and retail chain stocks. These groups seem to be extremely high, and institutions are now talking about taking their profits. But the problem is where to find reasonable value.

Most analysts say that there are no undervalued groups and few reasonable valued groups. They think, for instance, there's some room for advancement in machinery stocks, particularly if liberalized depreciation rules are put into effect, and in papers and oils, where respectable yields are available. But for the most part they are looking at individual stocks rather than groups because, as one analyst points out, "there are always profits to be made in a good situation and today it is wiser to buy the situation than the market."

## Wall St. talks . . .

about Kalvar Corp., bonds for industrial plant, Webb & Knapp, and gold shares

**Kalvar Corp.**, one of Wall Street's most spectacular over-the-counter performers, lost an institutional backer—at least temporarily. Energy Fund sold its 300 shares at around \$700 a share—well over double its original cost—because it felt Kalvar's future was over-discounted. Kalvar, at \$400 bid this week, has yet to show earnings but may be in the black next year.

**Municipal bond men** are troubled by a \$60-million industrial revenue issue—the biggest yet—that the Humphreys County (Tenn.) Industrial Development Corp. is marketing. The proceeds reportedly will go toward a big new aluminum reduction plant for Howe Sound Co. Many municipal men think this kind of financing amounts to an abuse of the historic tax-exemption of municipal bonds that may provide ammunition for a drive to wipe out such exemption.

William Zeckendorf's **Webb & Knapp, Inc.**, may finally be coming out of the woods. Its stock went to a five-year high of 2 1/4 this week on rumors that W&K would shortly get a much-needed infusion of about \$40-million in new debt capital from a syndicate headed by London merchant bankers Philip Hill, Erlangers, Ltd., plus the purchase of at least 3-million authorized but unissued shares of W&K stock. Meanwhile, Zeckendorf is said to be face-lifting his board. Former Treasury Secy. Robert B. Anderson is among those being mentioned.

**Speculative interest** in South African gold shares—which the British call "kaffirs"—is picking up. Gold shares are a hedge against dollar devaluation, but kaffirs are also being bought in London, where they can be had for about 15% under the Johannesburg price (the discount last summer was as much as 25%), because of the sharp improvement in South Africa's balance of payments. If South Africa eliminates its foreign exchange controls, it would put London and Johannesburg prices on a par.

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Today, these companies are guided by dynamic leaders like LTV Executive Vice President Clyde Skeen. A vital link in LTV's management in depth, Clyde Skeen was chosen by LIFE Magazine in 1954 as an aerospace executive destined to make important industrial news. He met that expectation by rising rapidly to top level responsibility through exceptional skill in operations management and corporate finance.

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DALLAS, TEXAS





## Moderate declines in stock prices dash hopes of strong yearend rally

Stock prices retreated this week. While the declines were moderate, they dashed hopes of a strong yearend rally. In fact, many brokers now say that customers will be taking some profits early in the new year. Though funds available for reinvestment are large, any large scale selloff could dampen the market.

A serious decline at this stage seems unlikely. For one thing, many institutions will have fresh cash available at the beginning of the year. For another, the business—and profit—outlook is just too good to warrant collapse. Indeed, brokers think that a weak market would be a buying opportunity leading to a sustained rise to new peaks.

Just which stocks will do well is a question. Some analysts think that the stocks most depressed by tax selling, including many electronics issues, will do well over the next few months. Others favor the cyclical issues on the grounds that heightened business activity will mean much higher earnings.

A surprise announcement that American Telephone & Telegraph Co. has slated a \$300-million bond issue—its biggest straight debt offering—for next February knocked the bond market back on its heels this week. Prices slipped a half point or more, with a corresponding jump in yields. While bond dealers do not think that either a new bear market in bonds or a return to tight money is likely, the market's reaction to the AT&T move indicates that the cost of borrowing is bound to go up as demand for credit rises.

## Reaction to ethical code for mutual funds is generally favorable with some criticism

First reaction by the mutual fund industry to the newly proposed code of ethics [BW Dec.16'61,p116] is favorable—although some feel that the provisions need strengthening and that offenses may not be punishable.

Members of the industry still must vote on the code. The feeling is that the Guide to Business Standards issued by the Investment Company Institute, the funds' trade association, will win approval, because of the strong stand on some issues. For example:

- Private dealings by individuals are curtailed. Specifically, member companies "should prohibit" their personnel from subscribing to new issues other than for bona fide investment. Brokers seeking investment company business were quick to offer investment manager shares in hot new issues this spring.

- Investment companies are prohibited from purchasing securities prior to the ex-dividend date merely to obtain the immediate dividend.

But there may be some argument over the section on reciprocal brokerage. Reciprocal brokerage is accepted as part of the industry's way of life, but ICI's guide says

that no member company or executive should "offer, promise, or intimate" to a broker-dealer that he will receive a specified amount of brokerage. Also a disproportionate amount of brokerage commissions should not be directed to one broker-dealer over another providing similar facilities and services without disclosure in the fund's prospectus.

## Open hearing on latest Alleghany squabble gets the green light from SEC

The stage was set this week for open sparring between Allan P. Kirby and the Murchison brothers of Dallas, who defeated him in a battle for control of Alleghany Corp. [BW May 27'61,p131]. Over Murchison protests, Kirby won approval for an open hearing on the Murchisons' plan to split 10-for-1 the shares of Investors Diversified Services, the \$4-billion investment company controlled by Alleghany. SEC set the date for Jan. 10.

Kirby fears that the Murchisons, second biggest holders of IDS, would make a public offering of Alleghany-owned IDS shares after the split, and thus gain control of IDS. He'd like to quiz the Murchisons about their plans—and their stock transactions in IDS.

The Murchisons skirt the question of whether they are selling IDS stock in the open market, but they are sending out peace feelers. They have twice offered Kirby representation on Alleghany's board, but each time he has declined.

According to John D. Murchison, Kirby's reluctance is restricting Alleghany's flexibility. Selecting a new president, for example, has been made difficult, since no outsider wants to get involved in the dispute. And the Murchisons also have been hesitant to put Alleghany into new investments.

## SEC moves ahead in probe of hot new issues by querying companies and brokers

Some 20 companies and more than 500 dealers and brokers have received detailed questionnaires from the Securities & Exchange Commission's special investigators, who are looking into the marketing of hot new issues that jump to premiums soon after they are offered. The questionnaire is the first broad request for information from Milton H. Cohen, who heads the study of securities markets authorized by Congress.

For some time now, the SEC has been interested in the number of new issues coming to market. Companies going public for the first time accounted for about 70% of total registrations in the three months ended September, compared to 52% in the year ended last June 30.

The survey—due back Jan. 20—seeks information on the pricing of each issue, the underwriter's activities in getting to know the company, the identity of insiders and the number of shares allotted to them, and the nature of pre-offering publicity.

# Personal business

BW

December 23, 1961

## The care and feeding of a speaker

With the winter meeting and banquet season in full swing, it may be your turn soon to act as a program chairman.

Handling this assignment—especially the task of lining up a speaker, then seeing him through the event—is a sadly neglected art, say old pros on the microphone-and-ice water circuit. The successful program chairman combines diplomacy, hospitality, wit, and meticulous attention to detail—plus brevity when he's on the podium himself.

A guest speaker (particularly from out of town) should be invited a good two months in advance—three or four months, if possible. If you can put this on a personal basis, so much the better; in any case, the letter should explain the event, characterize the group, and fix the date. Most important, it should define the type of speech wanted and give a specific time limit (usually 20 to 45 min.).

You might mention, too, that your group will pay the speaker's travel and hotel expenses. But unless you know he speaks professionally, you needn't raise the question of a fee—the non-pro will seldom expect one. (For a professional—college professor, author, etc.—the fee usually runs about \$50 to \$100, if he's local, and to \$1,000 or more if he has national standing.)

## Making advance arrangements

If your man agrees to come, a follow-up letter should list the program and the names of any other speakers. It also should include details about size of the audience, the hall, use of microphone, and any visual aids available, such as movie projector, blackboard, maps.

In the same letter, ask for a picture of the speaker, and biographical material. Offer to arrange transportation and hotel (at least, for a nonprofessional; an agency often handles these arrangements for a pro) and offer to meet him at the train or plane. And be sure to send along formal invitations to all events before or after the speechmaking—cocktail party, tour of the city, and such.

A nice touch is to offer the speaker a room at your private club, with full guest privileges. You might consider, too, inviting his wife, if it will be a mixed group.

To publicize the meeting, it's best to send the local press—about 10 days beforehand—a rundown of the event, plus the speaker's picture (glossy print), and a copy of his biographical material. Deadline for a Sunday issue is usually Friday.

Afterward, you may want to mail the speaker clips of any stories from the local papers and the trade press.

## Meeting day finally comes

The day of the meeting, doublecheck the microphone and other equipment to make sure it's working—too often it isn't. If your man will be speaking at a banquet table, have a lectern at his place. And arrange rehearsal time before the meeting, if he wants it.

Sharp timing is a must. Plan the program so that the preliminaries don't drone on indefinitely and squeeze the speaker to a bare 20 min. when he had expected 40. On the other hand, don't let him exceed his scheduled time. One way to control the timetable is to shorten or eliminate the question period after the speech.

## Personal business Continued

You'll introduce the speaker privately to key members of the group, of course, including those at the speaker's table. Provide him with a typed list of all names at the table, in seating order. You'll be sitting on his left; for his right side, it's important to select someone congenial.

**For your platform introduction, brevity is the soul of success. Three minutes is enough time to introduce any speaker.** Give no more than three or four highlights of his career; and try to explain gracefully why he is an excellent man for the occasion.

You might open with some humor, if you can tie the anecdote to the occasion. But don't force a joke—if you can't handle it, stay with straight material. Forcing humor is the giveaway of a rank amateur.

**Safeguard:** Have the speaker's name and your introduction typed.

### Bowing out gracefully

After the speech, your word of thanks from the platform shouldn't take more than a minute. You might, if possible, pick out a single highlight of the talk and draw a conclusion, briefly. Offer to drive the speaker to his hotel, of course—you might even suggest a nightcap. **But don't push. Most speakers want to escape.**

**Your letter formally thanking a speaker should go out within two or three days.** Enclose the fee, if any, or suggest that if he sends his expense tab, you'll take care of it.

**A gift—aside from a purely token memento—is best omitted.**

### Discover the world of sun and skis

For a different, invigorating vacation try a European ski trip. You can combine a week or two of skiing at an Alpine resort with a few weeks' tour of the Continent. **You don't have to be a skier—European mountain retreats have a good share of nonskiers who just enjoy the sunshine and the relaxed international atmosphere.**

Resorts noted for a cosmopolitan crowd and "apres-ski" life include Kitzbuhel, Austria (Goldener Greif Hotel); St. Moritz, Switzerland (Palace and Suvretta Hotels); Cortina, Italy (Mira Monti Majestic Hotel); Chamonix, France, scene of world ski championships Feb. 10-18 (Savoy); and Garmisch, Germany (Parkhotel Alpenhof).

A little off these well-traveled tracks, there's skiing in Sweden, Norway, and the Pyrenees of Spain.

**Flying in a charter group—possibly with members of your club—is an idea for congenial ski travel.** The round-trip fare, per person, runs \$210 to \$240 between New York and Zurich, for example. This compares with a round-trip first-class jet fare of \$975.60. Geneva and Munich are other gateways to the world of snow.

**There are restrictions on charter flights:** The group must be a bonafide organization, not formed specifically for the trip, and passengers must be members of at least six-months' standing.

**Note:** Major transatlantic airlines are considering cut-rate group fares and a year-round 21-day excursion rate, but these probably would not be effective until spring or summer (page 30).

### Cheers department

Annual national bartending competition has been won by a good winter drink called Fan Tann. Use 1 oz. bourbon, 1 oz. coffee liqueur, ½ oz. creme de cacao, 1 oz. cream; shake with ice; strain.

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# DRILLING INTO HISTORY 2 MILES UNDER THE SEA!

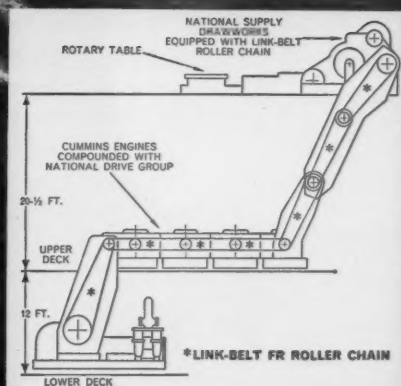
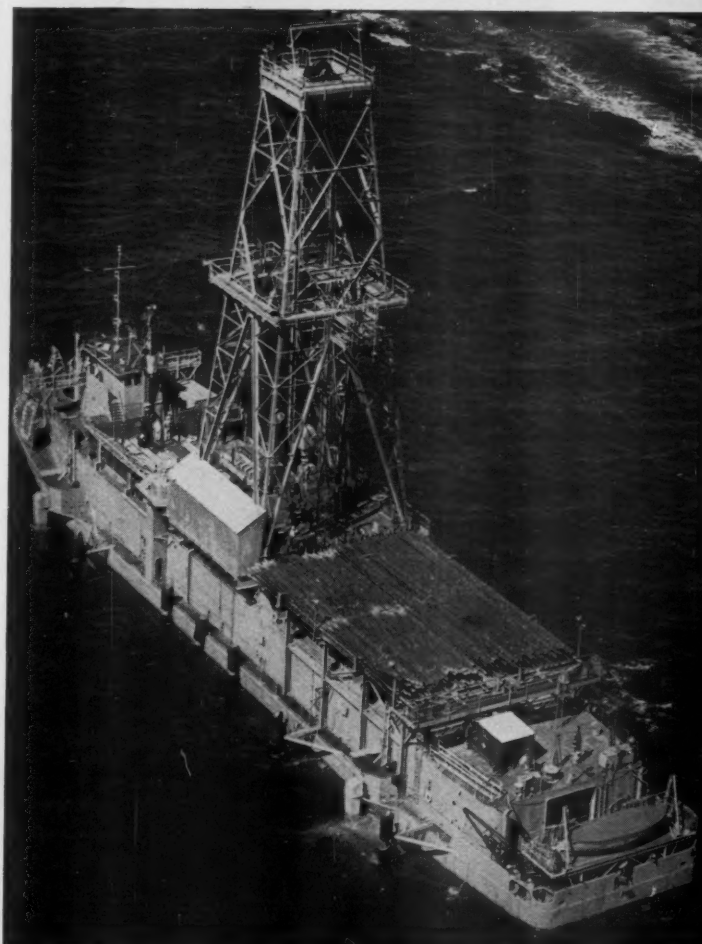
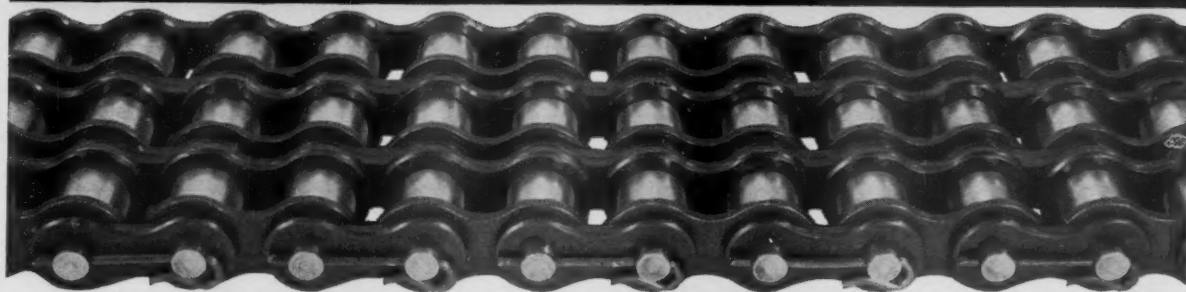


Diagram shows unique arrangement of drawworks and drive assembly that solved the limited-space problem on the CUSS I.



## Link-Belt roller chain delivered the power for phase I of Project Mohole

Job: putting a 1/4-million-lb. drill string to work under 11,696 feet of turbulent sea off the coast of Lower California. Purpose: to learn the inner secrets of the earth. Operation center: derrick on deck of the barge CUSS I. Results: penetration of the ocean's floor. Objective: to reach the Mohorovicic Discontinuity—33,000 feet below sea level—for a sample of earth's mantle.

To meet these demands, all of the equipment on CUSS I, owned and operated by Global Marine Exploration Company, required exceptional endurance qualities. The unusual drive arrangement shown in the diagram above, required roller chain with strength to withstand tortuous stresses and smashing impacts—some of the reasons why Link-Belt roller chain was selected—and why it is often first choice for power transmission and conveyor applications in every industry. LINK-BELT COMPANY, Dept. BW, Prudential Plaza, Chicago 1.

15,749

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BEARINGS



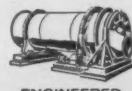
CHAINS AND  
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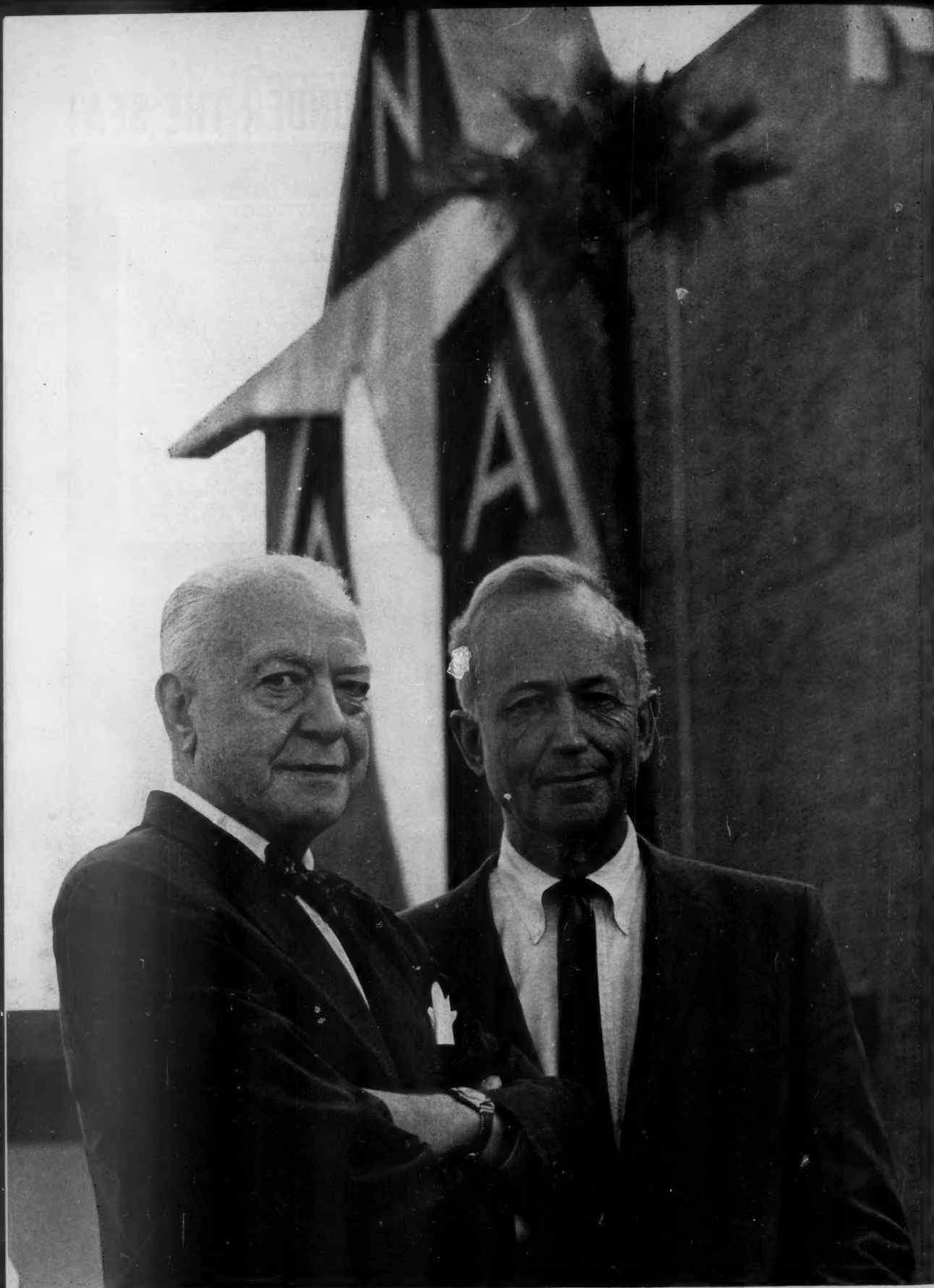
CONVEYING  
EQUIPMENT



POWER  
TRANSMISSION  
MACHINERY



ENGINEERED  
(PROCESSING)  
EQUIPMENT



Top team at North American Aviation: Chmn. James H. Kindelberger, 66, left, and Pres. J. L. Atwood, 57

# Giant of space industry

**North American Aviation had what it takes to win the multibillion-dollar Apollo space ship award. It combines wide and deep R&D enterprise with bold management**

**North American Aviation, Inc.**, which snared the coveted prime contract for the Apollo moon-going space ship [BW Dec.2'61,p48], is the very model of what a Space Age industrial leader must be—master of many technologies and constant explorer of others, with the nimbleness to follow always the most promising paths.

Even before the Apollo award by the National Aeronautics & Space Administration, North American was far ahead among NASA's contractors. Earlier this year, it got a contract, funded initially at \$140-million, to develop an upper-stage rocket for the space program. The Apollo three-man space ship has more than \$400-million to start with, and NASA says the bill will run between \$1-billion and \$2-billion in the next few years. North American guesses \$3-billion over the next five to eight years for its share of the program.

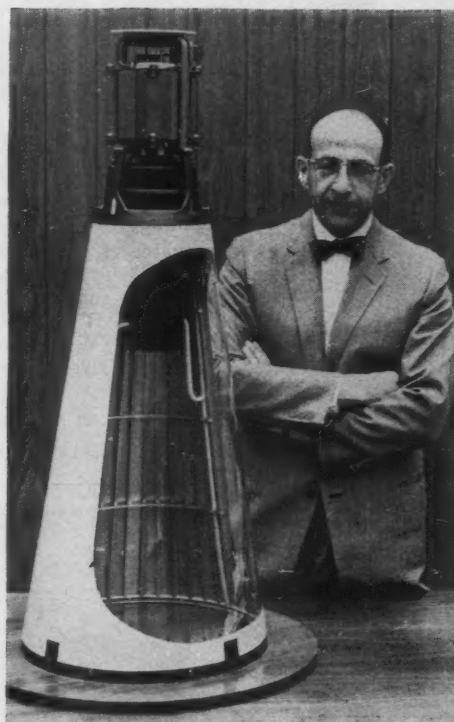
**In billion class.** North American was already a billion-dollar company. Sales for the fiscal year ended Sept. 30 topped \$1.26-billion, and the \$1.5-billion mark is in sight within three years. If one or two of NAA's other five divisions (table, page 106) keep pace with the Space & Information Systems Div., which

got the two big space contracts, company sales could touch \$2-billion in that time.

Perhaps no other company has entered so many diversified aerospace fields on such a scale and in such depth. NAA represents certainly the farthest advance of a former aircraft company to the technological master manager required under the new government procurement setup for weapons systems [BW Apr.8'61,p43]. Its formula for success: Develop new technologies in your own shop, and develop your own technically oriented executives to manage them.

**Engineering-minded.** North American has a lean, tough look. It is an action outfit, strong on line management organization, with a minimum of staff functions. Management is technically oriented all the way to the top. Chmn. James H. Kindelberger and Pres. J. L. Atwood (picture, left) are both former chief engineers; all division presidents except one have technical backgrounds.

A characteristic of an advanced technology company is that much of its work is in research and development and in short-run production, almost customized work. (For example, only about 10 Apollo craft are



**Chauncey Starr**, president of Atomics International Div., with one-third-scale model of reactor for space vehicles.

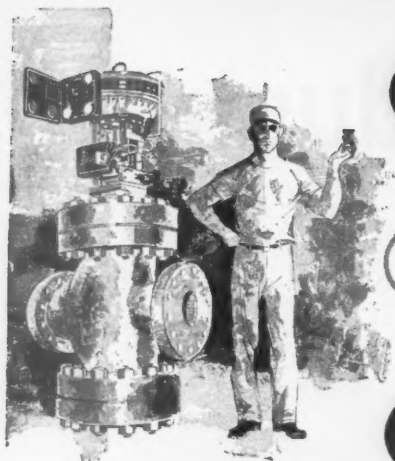
**Harrison A. Storms, Jr.**, president of Space & Information Systems Div., which won contract for Apollo moon ship.



**S. K. Hoffman**, president of Rocketdyne Div., stands near nozzle for one of the engines that power Atlas missile.







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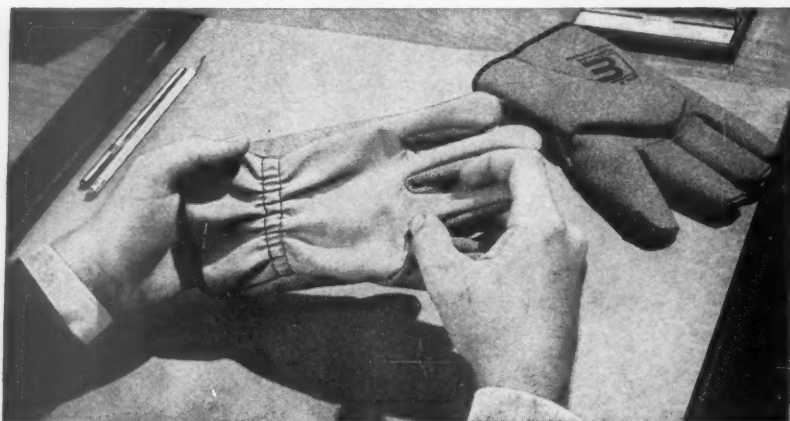
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## A new glove management wanted

There has been a long-felt need for an all-weather work glove that is sure-gripping, flexible, warm, oil and water repellent and long wearing. Edmont has produced this glove by impregnating jersey with non-slip vinyl. It is replacing cotton, leather and ordinary jersey on hundreds of jobs.

In-plant tests of this Tuf-Duk glove show immediate employee acceptance and cost savings ranging from 40% to 70%. A simple glove control system, where employees return worn gloves for replacement, will help you prove this.

**Free Test Offer to D&B Listed Firms:** Tuf-Duk is one of over 50 Edmont styles of coated and impregnated fabric gloves. Tell us your operation. Without cost we will recommend correct gloves and supply samples for on-the-job test. Write Edmont Inc., 1220 Walnut Street, Coshocton, Ohio. In Canada, Edmont Canada Ltd., Cowansville, Quebec.

**Edmont**  
JOB-FITTED GLOVES

planned.) Last year, 65% of NAA sales were under "cost plus fixed fee" contracts, which generally cover R&D and testing, as distinguished from production.

Another characteristic, naturally, is emphasis on research facilities. If you don't get your sales chiefly from extensive production, you must have a lot of development projects under way to make sure enough of them pay off.

North American is expanding its research facilities fast. Five years ago, only 10% of investment in new plant was for R&D; this year it's 60%. The company took \$10-million from its own pocket for a new aerospace laboratory for the Los Angeles Div. Its six divisions operate nearly 200 labs for research in fields ranging from undersea geology to space navigation, from thermionics to cryogenics, from acoustics to nuclear physics.

**Still in aircraft.** NAA is still in the airplane business, too, and Kindelberger and Atwood will thank you not to forget it. Besides the planes it makes in whole or in part, the company has such projects on the drawing boards as an advanced fighter-bomber, a supersonic jet airliner, and a manned aircraft capable of 10 times the speed of sound. Its X-15 rocket plane has already flown more than six times the speed of sound.

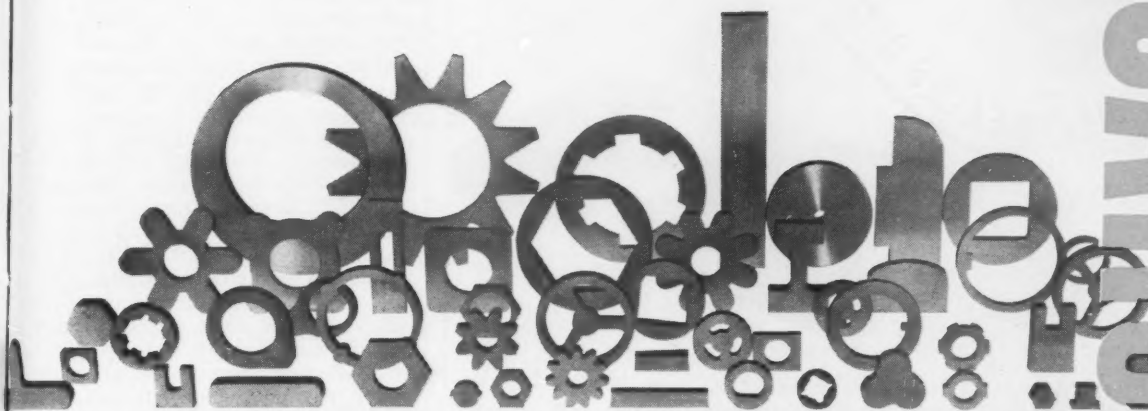
The percentage of sales accounted for by aircraft is, however, shrinking fast. So is the share of the labor force that is assigned to aircraft work.

In 1945, only five men were in non-aircraft work, as a cadre of the expansion in new fields; today, 51,000 of the 82,000 employees are in non-aircraft work. As recently as 1953, non-aircraft sales accounted for only 15% of the total; last year, 62% of the \$1.26-billion sales came from the new fields.

### I. Specimen of diversity

As a result of the postwar shift away from traditional aircraft business to the new role of systems manager and advanced technology company, North American has acquired a nucleus of all the technologies that might ever be required in aircraft, missiles, space craft, and complex electronics systems.

This means that NAA today has no fixed areas of business at all, at least not in the sense that most manufacturers have traditional product lines. NAA's traditional line was aircraft, but the company has faced its decline with little emotion. Corporate and divisional chiefs will tell you insistently that the only tradition



## Forms that shape ideas

Do these shapes suggest a new product design, or a better way of making a current design? Or how to make something you may have thought impossible? Or a tube with two or more passages through its entire length? Or, perhaps, a packing gland nut with wrench lugs cast to size? Asarcon bronze cast-to-shape in long lengths may offer answers to all these questions — and many more.

Asarcon continuous cast bronzes are made to order in a wide variety of useful shapes and forms. And this unique process enables you to put these alloys to work where casting and machining costs previously have been prohibitive. Continuous cast bronzes, in lengths to 20 feet, offer substantial savings all along the line for production parts, repair and maintenance jobs. For example, you can reap a 20% saving in manufacturing time, 25-30% saving in purchased stock, and 20% saving in metal cost.

Send a sketch of the part or parts you want produced more efficiently at lower cost. Write or call Continuous Cast Department, American Smelting and Refining Company, 120 Broadway, New York 5, N. Y., or your local Asarcon Distributor.



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NAA can afford is a tradition of superior technical performance.

**Versatility pays.** NAA's breadth and depth of diversification has kept the company's sales up. It makes up in variety of successful development programs what it lacks in sustained production of hardware. Government funds often come slowly; before it commits heavy production funds, the government wants to be sure the program is the right one. So a company must have a variety of projects in the works.

Under these conditions, too, a company has to accept a lower percentage of profits on sales. NAA gets only 2%. But in a tautly managed company, even 2% on sales works out well for the stockholders. NAA showed a loss in only one year, 1947. Its per-share earnings have been above \$3 for eight years; \$2 dividends were paid in 1960 and 1961.

Marketing opportunities are multiplied, too, by diversification of technology. When NAA isn't acting as prime contractor or associate contractor on a project, its divisions are likely to be doing major work on somebody else's project.

Rocketdyne Div., nominated as one of the subcontractors on the Apollo project because of its development of the F-1 engine, makes rocket engines for Convair's Atlas missile. Autonetics Div. makes radar equipment for Lockheed's F-104 fighter for NATO [BW Mar. 11 '61, p 94] and Republic's F-105, flight controls for Boeing's Minuteman missile, and inertial navigation devices for submarines.

**Team effort.** Diversified technology also makes it possible for North American to be one of the handful of companies engaged in systems management. It takes the prime contract for a major weapon system or space project such as Apollo, designs the configuration of the vehicle and its related equipment, nominates the subsystem contractors and coordinates their work, assembles and tests the prototype, and sometimes also manages the production of operational vehicles.

In this role, NAA is now responsible for such projects as the A3J attack bomber for the Navy, the Hound Dog air-to-surface missile, the B-70 Valkyrie intercontinental bomber, and the Apollo space ship.

### II. Why it won Apollo

Having so many technologies not just under study but in working order gives North American a big advantage and considerable confidence in going after contracts for system management. It was very



likely the deciding factor in winning the big Apollo contract last month.

In performing its Apollo contract, the Space & Information Systems Div. can call on Atomics International, for example, for its experience in protecting personnel and equipment from radiation, on Rocketdyne to learn about propulsion and its effects on men and instruments, on Autonetics for the latest findings about guidance and navigation.

The reservoir of technologies in all the divisions will help SISD's performance as prime contractor, even though only Rocketdyne appears on NAA's proposed list of subcontractors.

For that matter, if it were not for NASA's stipulation that more than 60% of the Apollo work must be farmed out, North American could do the complete job under its own roofs. Despite its emphasis on R&D, NAA has enormous production capability, too. It is unique in its capacity to turn out the complete package: the vehicle, engines to power it, electronics to guide it and to check it out on the ground.

### III. How Apollo was decided

While NAA was among the lowest in a wide range of prices in the Apollo bidding, it seems clear that other considerations played a far greater part in NASA's decision. For North American, it was (1) a victory for a single bidder vs. some impressive team bidders [BW Dec.2'61, p48] and (2) a vote of confidence in the company's management and its capability in a variety of skills.

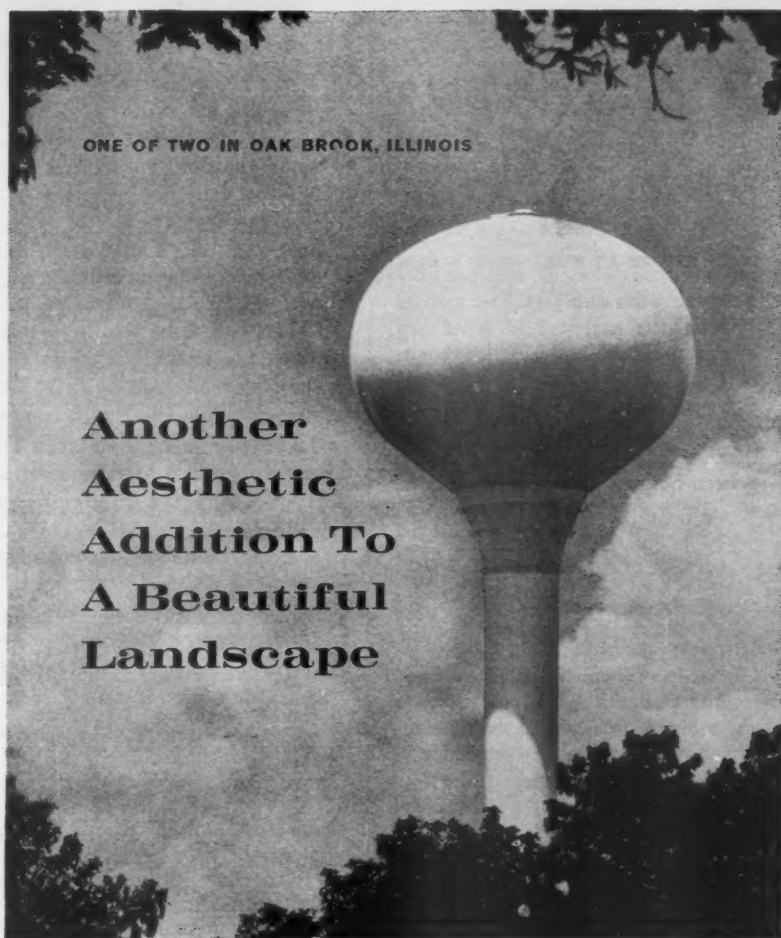
It was no secret that big-name team bidders felt they had the inside track to the Apollo award, and NASA's adoption of the single-company approach is interpreted as setting a new—and surprising to many—pattern for handling other big space contracts.

**Evaluation.** To analyze the five bids submitted in October, NASA set up a source evaluation board at its Manned Spacecraft Center, Langley Field, Va. Through committees on both the business and the technical sides, the board studied proposals and interviewed bidders. It wound up with no recommendations for the award but with numerical ratings on various criteria.

NASA doesn't rate its criteria in order of importance, but some of them are known to figure prominently in the Apollo evaluation:

- The capability for all phases of the space project. Many companies in the bidding did not have this individually—only as a team.

- The identity of the top 10 or 20



250,000-gallon Waterspheroid, 130 feet to bottom.

CB&I

Oak Brook, Illinois, west of Chicago and famous as a polo center, is also gaining a reputation as a pleasant location for offices and research laboratories. • To fulfill the anticipated water pressure requirements for fire protection and general service for the area, the village recently selected two CB&I 250,000 gallon steel Waterspheroids • This is another example where the attractive CB&I Waterspheroid,® available in capacities up to 1,000,000 gallons, or its little brother, the famous CB&I Watersphere® with capacities from 25,000 to 250,000 gallons, complements natural surroundings • Investigate the cost benefits of having this modern water storage facility in your community. Write for Bulletin A-40, Chicago Bridge & Iron Company, 332 S. Michigan Avenue, Chicago 4, Illinois. Offices and subsidiaries throughout the world.

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# Minding our own business

## BACKSTAGE AT BUSINESS WEEK

**Analyzing the analysts.** Ever wonder what financial analysts read, other than the financial pages? We decided recently to find out. We asked Crossley, S-D Surveys, Inc. to poll some 3,000 representative U.S. financial analysts about their relationships with seven leading general-business and news magazines.



Of the 68% who replied, more mentioned reading Business Week regularly than any other. More (twice as many) mentioned having the most confidence in Business Week. And more (three times as many) mentioned finding Business Week the most useful. (And potential advertisers please note: Business Week also finished first in readership-per-dollar).

**In the money.** Speaking of readership surveys, we do pretty well *everywhere* in business and industry. Case in point: Another magazine recently sponsored a study among executives in the metal-working industries. They were asked



which of seven magazines they had read in the previous two weeks. The magazines were: *Business Week*, *Life*, *Newsweek*, *The Saturday Evening Post*, *Sports Illustrated*, *Time*, and *U.S. News & World Report*. Guess who came in second? That's right. (We won't tell you who came in first; why give them a plug?)

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management men  
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## North American at a glance

**Atomics International Div.** Its \$52.3-million in contracts center around commercial nuclear reactors, lightweight reactors for space vehicles, and such direct energy conversion systems as thermionics and fuel cells.

**Autonetics Div.** It's big, with \$410.1-million in contracts and nearly 29,000 employees. Projects: inertial navigation equipment, search and ranging radar, armament control systems, flight control systems, digital computers, automatic check-out equipment.

**Columbus Div.** The A3J Vigilante [supersonic carrier-based attack bomber], the T2J jet trainer, and ground antennas for radiotelescopes add up to \$133.8-million in contracts.

**Los Angeles Div.** Contracts total \$377.7-million; personnel, 18,650. Projects: B-70 Mach 3 bomber, the T-39 jet trainer, and Air Force's X-15 research vehicle for manned space travel.

**Rocketdyne Div.** Its \$180.3-million contracts go for liquid and solid rockets, nuclear rockets, electric rockets, other projects such as saline water conversion.

**Space & Information Systems Div.** It has \$108-million in contracts, besides the \$400-million initial contract for Apollo. Other projects: Hound Dog air-to-surface missile and the Saturn S-II second-stage rocket booster.

Note: Sales contract figures are for fiscal year ended Sept. 30, 1961. Total sales amount to \$1.3-billion. Total backlog, as of Sept. 30, is \$2.3-billion—including \$1.4-billion in orders not yet funded.

management and technical people who would be responsible.

- Experience in manned aircraft. NASA considers its manned space capsules as an extension of man's experience in flying planes, and a company that's familiar with planes can be expected to know better the problems that astronauts face.

- The effect of an Apollo contract on a bidder's other government work. Other things being equal, NASA favored broadening the technological base of the entire space program by awarding Apollo to a company not already involved in developing other space capsules.

- The question of whether a team project could be managed as efficiently as that of a single company. NASA decided not.

## IV. Bold management

Above all other considerations, NASA is reported particularly pleased with the management team that North American proposed and with its analysis and suggested approaches to problems of development. Yet North American built up this kind of technical competence in high management posts without the inducements offered by many other companies to lure technical people. It has depended instead on the challenge of the problems and on bringing good men up through the ranks.

Division presidents are given their heads, and there's no hesitation about moving talent around from one division or one project to another. Tables of organization and procedural precedents rarely inhibit managers, and a calculated risk that turns out badly isn't put down as a black mark against an executive.

"We are essentially a risk-taking outfit," says Chauncey Starr (picture, page 101), president of Atomics International, "but we know what we are doing. The important thing is that we gamble we can do something that is very advanced, technically."

**Taking chances.** Right after World War II, NAA took a characteristic gamble when it designed a captured German swept wing into production models of the F-86 Sabrejet without waiting for wind tunnel tests. This single act assured U.S. air superiority over Korea. Similarly, the X-15 was conceived and pushed along before any way to build it was assured. "You can't know all the answers when you start a design," says Harrison A. Storms, Jr., (picture, page 101), president of SIDS. "If you do, it is obsolete. You've got to get to the operations stage while the item can still be useful."

As for the challenge of Apollo, John W. Paup, SIDS's manager for the project, says simply: "We will all grow an inch taller." **End**

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One of the ways we've learned this is a survey conducted by Daniel Yankelovich, Inc. It was based on a psychological factor called *Apperception*—a scientific term for that complex of expectations which a reader has even before he reads his publication. The study revealed that **BUSINESS WEEK** readers expect much more from advertising than do the readers of other publications. They expect "helpful, practical, problem-solving" advertisements. They expect to use **BUSINESS WEEK** as a buying guide to products and services.

Why should **BUSINESS WEEK** ads get such a unique reaction? You know part of the answer yourself. The only way you can obtain **BUSINESS WEEK** is through subscription—and subscriptions are solicited only from management men. No other publication in the field has this restricted circulation policy, a policy which guarantees advertisers an audience of decision-makers in business and industry.

Advertisers want and need your decision-making ability. This is why more business and industrial advertisers use **BUSINESS WEEK** than any other general, general-business, or news publication. This has been true every single year since 1937. (Bulletin: the figures are just in for 1961. **BUSINESS WEEK** is first once again.)

As a reader, we hope you profit from every page of **BUSINESS WEEK**—editorial and advertising. But if you are also concerned with the advertising of your company, you'll find you can profit from this fact: Advertisers get more management readership per dollar in **BUSINESS WEEK** than in any other publication in the general business or news field.



# The coming test of economic health

It's pleasant to record that 1961—a year that began in recession—is going out with a strong recovery under way (page 17).

And it now looks as though 1962 will bring a solid 8% gain in the nation's total output of goods and services. This gain should reduce unemployment, raise standards of living, and create the conditions under which the move toward trade liberalization—so essential to the economic and political unity of the free world—will become possible. Such are the hopes for 1962.

Nevertheless, it is necessary to point out that there are reasons to fear that 1962 may reverse 1961's pattern—by coming in with a recovery and going out in a slump.

## The pressure on profits

The reasons for such unhappy thoughts at a birthday party are these: The economy will get its strength in the first half year from the continuing upsurge in government spending and the buildup of inventories in anticipation of a steel strike or price hike. As the Kennedy Administration struggles to make good on its pledge of a balanced budget in fiscal 1963 by holding down government spending, and as inventory building slips down, the economy may lose momentum in the second half.

And that loss of momentum will be compounded if—as many businessmen fear—profits reach their peak in the second quarter of the year, and begin to slip thereafter. Behind the squeeze on profits are likely to be two forces: the drive of labor for wage hikes in excess of productivity gains (while competition and a watchful White House keep prices under tighter control); and the heavy hand of the federal tax collector whose take from the corporations and other big investors mounts rapidly as the economy moves up. The swift rise in taxes puts the economy under deflationary pressure before it has regained full employment, drags the rate of economic growth, makes the economy recession-prone.

The existence of this problem was widely known when the new Administration came to office last January. It sought to solve the problem of the "deflationary gap"—then thought to amount to about \$10-billion—by boosting federal expenditures. In fact, federal spending is going up from \$81.5-billion in fiscal 1961 to \$89-billion in the current fiscal year—a \$7.5-billion rise; and next year it will run about \$4-billion higher (page 20).

Yet, the deflationary gap is not closed—for the budget is moving into balance while unemployment is still above 6%—and the President has decided he is at the end of the line on big boosts in spending.

There's another route to closing the deflationary gap—against which the President up until now has turned his back: the route of tax reduction. Earlier, his economic advisers called for consideration of reduced taxes, but were rebuffed; the party-line explanation then was that the President had called for sacrifices during the election and could not reconcile tax reduction with his sacrificial posture. Even Administration efforts to spur business capital spending by incentive tax credits or depreciation reforms must, according to the party line, be offset by higher taxes in other areas. How much stimulation to capital spending you can get by shifting the composition of the tax structure without reducing its over-all level is doubtful; some experts think very little.

Now, in 1962, government must put still heavier reliance on private business investment, if the drive forward in the first half of 1962 is to carry through into the second half—and, hopefully, well into 1963. An upsurge in business capital spending—which has been relatively sluggish for about five years now—is essential to achieving the faster growth rates and lower levels of unemployment which the Administration insists are cardinal goals.

## Growth via tax reform

The best way to achieve that upsurge in capital spending is to reduce taxes—on both corporate income and individual income. The one will strengthen profits, a key source of funds for expansion and modernization, and the other will increase demand for the economy's goods and services—and put more pressure on existing capacity.

It's time the U.S. did something fundamental and lasting to correct the fiscal structure that has hobbled our growth since the phase of fast post-war recovery ended in the mid-1950s. Faster growth will throw off more federal revenues—even at somewhat lower tax rates—and permit the government to make those expenditures essential to national security or welfare.

Tax reduction—coupled with a thorough-going tax reform—is the basic way to cure the ills of a capitalist economy. Trying to do the job by alternately raising expenditures and, in the subsequent alarm over inflation or a passion to show fiscal "soundness," trying to check or depress federal outlays is what Pres. Eisenhower did for most of his eight years, and what Pres. Kennedy shows every sign of making his fundamental approach.

The coming year—1962—would be a good year to try a new and potent approach to the nation's growth problem.

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